



**IMPACT OF MANAGEMENT OF EXCHANGE  
RATE ON INDIA'S BALANCE OF  
TRADE : 1960 - 80**

**DISSERTATION SUBMITTED IN PARTIAL FULFILMENT OF  
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Salam in partial fulfilment for the award of  
M.Phil degree in Economics of the Aligarh  
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investigation and research output are the  
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## Chapter -1

### INTRODUCTION

#### 1.1 The Problem and its Setting

Trade performance of the non-oil producing developing countries have received considerable attention in the post-war years. This is mainly due to their ever-increasing expenditures on imports and a slowly increasing export earnings. As is well known, economic development of almost every developing country calls for a substantial amount of investment in a wide range of productive activities. But as production in a developing country is initially confined to a limited range of products, it has to look to the imported inputs of machinery, equipment, industrial raw materials and technical know-how. Thus import expenditure shows a continuous tendency to increase rapidly. As against this, export earnings either remain stagnant or increase only at a slow pace. This is on account of the fact that developing countries typically export primary commodities and raw materials which face a stagnant world demand and adverse terms of trade vis-a-vis manufactured goods. In fact, Prebisch and Singer visualise a secular deterioration in the terms of trade of developing

countries.<sup>1</sup> On account of these reasons a gap between payment obligations and their export receipts is created and this gap continues to widen with the passage of time, threatening the pace of overall development of the country concerned.

The core of the problem also lies in the instability of the exchange rate system, which greatly affects the international economic and trading environment. During the past several years the world has gone through several exchange rate experiences.<sup>2</sup> Under the gold standard<sup>3</sup> which emerged slowly during the 19th century, became more widely established about 1870 and was full fledged during the forty years from the beginning of the 1870s to the outbreak of the First World War, the major currencies of the world, led by the British Sterling, were convertible into gold at given parities. The important advantages of the system were the stability of exchange rates, its automatic working and the simple mechanism. Stability of exchange rates facilitated growth of international trade and investment. There was no major currency crisis during this period and no major currency had to be devalued or revalued. Products and factors moved freely across national

1 For details see: Raul Prebisch, "Commercial Policy in the Underdeveloped Countries", The American Economic Review, Papers and Proceedings, May 1949, pp. 261-264 and Hans W. Singer, "The Distribution of Gains Between Investing and Borrowing Countries", Ibid., May, 1950, pp. 477-479.

2 For a detailed study of the developments in the international monetary system see, L.S. Yeager, "International Monetary Relations: Theory, History and Policy", 2nd ed., New York, Harper and Row, 1976.

3 See R.G. Hawtrey, "The Gold Standard in Theory and Practice", 5th ed. London, Longmans, Green, 1947.

borders and trade restrictions were not generally used to achieve balance of payments adjustments. Deficits were to be adjusted by internal deflation and surpluses were to be removed by internal inflation. The gold standard, however, proved to be only a "fairweather craft" as it could not withstand the stormy waters. During the First World War and later at the time of the great depression (1929-32), it had to be suspended because of the complications it created for some countries. Its readoption by Great Britain in 1925 and by many other countries soon afterwards met with no success.

The inter-war period was characterised by chaotic conditions with respect to exchange rates. Competitive exchange rate changes for 'beggar-my-neighbour' purposes became the order of the day. Trade and tariff restrictions became prominent. Quotas, import restrictions and bilateral forms of trade began to be applied increasingly. The system of multilateral trade suffered heavy blows. All this led to the growth in world trade far behind that of world production. A need was therefore felt for an orderly conduct of international trade and exchange rate stability. In response to that need the representatives of 44 nations met in July 1944 at Bretton Woods, New Hampshire, U.S.A., and agreed to establish a new international monetary system. It was agreed to create the International Monetary Fund (I.M.F.) to serve the following

purposes:<sup>4</sup>

- (1) To promote international monetary cooperation through a permanent institution which provides the machinery for consultation and collaboration on international monetary problems.
- (2) To facilitate the expansion and balanced growth of international trade, and to contribute thereby to the promotion and maintenance of high levels of employment and real income and to the development of the productive resources of all members as primary objectives of economic policy.
- (3) To promote exchange stability, to maintain orderly exchange arrangements among members, and to avoid competitive exchange depreciation.
- (4) To assist in the establishment of a multilateral system of payments in respect of current transactions between members and in the elimination of foreign exchange restrictions which hamper the growth of world trade.
- (5) To give confidence to members by making the Fund's resources temporarily available to them under adequate safeguards, thus providing them opportunity to correct maladjustments in their balance of payments without resorting to measures destructive of national or international prosperity.
- (6) In accordance with the above, to shorten the duration and lessen the degree of disequilibrium in the international balance of payments of members.

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<sup>4</sup> For a full description of the IMF see S.L.N.Simha, International Monetary Reform - An Introduction, Vohra & Co. Publishers Private Ltd., 1973, pp. 24-83.

The main feature of the system, which later came to be popularly known as the Bretton Woods System, was the maintenance of stable exchange rates. This was deemed desirable against the unhappy experience of the 1930s. The members of the IMF were required to declare the par values of their currencies in terms of a standard unit of gold or in terms of the U.S. dollar and not to change them more than one per cent below or above parity. However, if a member country faced a situation of a fundamental disequilibrium in its balance of payments position and could not keep the rate within the permitted margin of fluctuation, it could in consultation with the Fund alter the par value. If the proposed change was less than 10 per cent, the Fund could not object. A country making a larger change was required to obtain the Fund's permission. Thus the exchange rates mechanism formed under the Bretton Woods System came to be known as "managed flexibility" or "adjustable peg". This mechanism was supposed to eliminate the rigidity in exchange rates inherent in the working of the gold standard as well as the volatile fluctuations in the rates experienced under fluctuating rates mechanism.

The adjustment process under the Bretton Woods System worked well in the initial years but thereafter threat to it arose out of two changes namely the expanded role of the U.S. dollar as international currency and the exchange rate rigidity that developed over time.<sup>5</sup>

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5 For details about the collapse of the Bretton Woods System see, Bo Sodersten, International Economics (2nd Edition), The Macmillan Press Ltd., 1981, Chapters 29 & 30 (pp.441-455).

Under the Bretton Woods System since the U.S.A. had undertaken to convert the world's dollar holdings into gold at a fixed price, the world regarded the American dollar as good as gold or even better than gold because dollar holding (as reserves) earned interest while gold did not. Thereafter countries of the world began to hold their official reserves in the form of U.S. dollar. The U.S.A. went on supplying dollars to the rest of the world to keep the entire world monetary system liquid by incurring huge external deficits (see table 1.1).

The perpetual incurring of external deficits increased the short-term liquid liabilities of the U.S.A. to foreigners while its stock of gold diminished. This can be seen by Table 1.2.

Table 1.2 shows that in 1957 the U.S. gold holdings were \$ 22.86 billions against its liquid liabilities to foreigners of \$ 14.38 billions. In 1962 the gold stocks declined to \$ 16 billions while the liquid liabilities to foreigners rose to \$ 22 billions. The situation became explosive in the early 1971 when the gold stocks declined \$ 11 billions and the liquid liabilities to foreigners rose to \$ 67 billions.

This undermined the creditibility of the U.S. dollar and created the confidence problems in the convertibility of the dollar into gold at a fixed rate. The U.S. could have improved the situation by undertaking devaluation of its currency. But

TABLE 1.1

Balance of Payments of the U.S.A. - 1950-72

|  | (Billions of Dollars)   |      |         |         |         |         |      |       |       |  |
|--|-------------------------|------|---------|---------|---------|---------|------|-------|-------|--|
|  | YEARS OF ANNUAL AVERAGE |      |         |         |         |         |      |       |       |  |
|  | 1950-56                 | 1957 | 1958-59 | 1960-64 | 1965-67 | 1968-69 | 1970 | 1971  | 1972  |  |
| Merchandise Trade                              | 2.6                     | 6.3  | 2.3     | 5.4     | 4.2     | 0.6     | 2.1  | -2.9  | -6.9  |  |
| Military expenditure                           | -2.0                    | -2.8 | -3.0    | -2.4    | -2.7    | -3.2    | -3.4 | -2.9  |       |  |
| Travel and Transportation                      | -0.1                    | -0.2 | -0.7    | -1.1    | -1.5    | -1.7    | -2.0 | -2.2  |       |  |
| Investment income                              | 1.8                     | 2.4  | 2.5     | 3.9     | 5.5     | 6.1     | 6.3  | 7.9   |       |  |
| Other services and transfers                   | -0.5                    | -0.5 | -0.6    | -0.6    | -0.7    | -0.8    | -0.8 | -0.7  |       |  |
| Balance on goods, services & remittances       | 1.8                     | 5.2  | 0.5     | 5.2     | 4.8     | 1.0     | 2.2  | -0.8  | -5.0  |  |
| U.S. Government Grants                         | -2.2                    | -1.6 | -1.6    | -1.9    | -1.8    | -1.6    | -1.7 | -2.0  |       |  |
| Balance on current account                     | -0.4                    | 3.6  | -1.1    | 3.3     | 3.0     | -0.6    | -0.5 | -2.8  | -8.0  |  |
| Long-term capital: Official                    | -0.3                    | -0.9 | -0.6    | -1.0    | -1.8    | -2.1    | -2.0 | -2.4  |       |  |
| Private  | -0.9                    | -2.9 | -2.1    | -3.0    | -3.4    | 0.6     | -1.5 | -4.1  |       |  |
| Balance on current account & Long-term capital | -1.6                    | -0.2 | -3.8    | -0.7    | -2.2    | -2.1    | -3.0 | -9.3  | -9.2  |  |
| Short-term capital                             | 0.1                     | 0.3  | 0.8     | -0.5    | 1.3     | 5.8     | -6.5 | -10.3 |       |  |
| Errors and omissions                           | 0.3                     | 1.0  | 0.3     | -1.0    | -0.6    | -1.5    | -1.1 | -10.9 |       |  |
| Allocations of SDRs                            | -                       | -    | -       | -       | -       | -       | 0.8  | 0.7   |       |  |
| Official reserve transactions balance          | -1.2                    | 1.1  | -2.7    | -2.2    | -1.5    | 2.2     | -9.8 | -29.8 | -10.3 |  |

Source: Bank for International Settlements, Forty-Second Annual Report, June 1972, and IMF Survey, March 26, 1973.

Reproduced from S.L.N. Simha, *op.cit.*, pp. 124-25.



TABLE 1.2

External Reserves\* and Liabilities of the U.S.A.  
(In Billions of Dollars)

| Year<br>(End of) | Gold<br>Holdings<br>(1) | Reserve<br>Position<br>in the IMF**<br>(2) | SDRs<br>(3) | Total<br>official<br>reserves<br>(1+2+3)<br>(4) | Private<br>external<br>short term<br>claims<br>(5) | External short-term<br>Liabilities |                                |
|------------------|-------------------------|--|-------------|---|--|------------------------------------|--------------------------------|
|                  |                         |  |             |   |  | Total<br>(6)                       | To official<br>Agencies<br>(7) |
|                  |                         |  |             |   |  |                                    |                                |
| 1937             | 12.79                   | -  | -           | 12.79   | -  | 1.89                               | -                              |
| 1949             | 24.56                   | 1.46                                       | -           | 26.02   | -  | 6.33                               | 2.91                           |
| 1954             | 21.79                   | 1.19                                       | -           | 22.98   | -  | 11.35                              | 6.77                           |
| 1957             | 22.86                   | 2.00                                       | -           | 24.86   | -  | 14.38                              | 7.92                           |
| 1962             | 16.06                   | 1.06                                       | -           | 17.12   | 5.16   | 21.96                              | 11.91                          |
| 1967             | 12.07                   | 0.42                                       | -           | 12.49   | 8.61   | 35.67                              | 18.19                          |
| 1968             | 10.89                   | 1.29                                       | -           | 12.18   | 8.71   | 38.47                              | 17.34                          |
| 1969             | 11.86                   | 2.32                                       | -           | 14.18   | 9.67   | 45.91                              | 16.00                          |
| 1970             | 11.07                   | 1.94                                       | 0.85        | 13.86   | 10.80  | 46.96                              | 23.78                          |
| 1971             | 11.08                   | 0.63                                       | 1.19        | 12.90   | 13.21  | 67.81                              | 50.65                          |
| 1972(Sept)       | 10.49                   | 0.45                                       | 1.96        | 12.90   | 13.96  | 79.65                              | 60.03                          |

\* Foreign Exchange holdings are excluded as they are small in magnitude.

\*\* Comprising gold subscription plus credit extended to the IMF by the U.S.A. or less credit obtained from the IMF.

Source: International Monetary Fund, Issues of International Financial Statistics.  
Reproduced from S.L.N. Simha, op.cit., p.126.

this the U.S. believed, would accomplish nothing for two main reasons: first the U.S. action would be followed by similar action by other countries, leaving the structure of exchange rates unchanged. Secondly, it would destroy the international monetary system by increasing the role of gold. Further since the U.S. dollar was freely convertible into gold at a fixed price, and all other currencies were tightly pegged to the U.S. dollar, it became impossible for the U.S.A. to undertake dollar devaluation. The other way out for the U.S.A. was to create domestic deflation in order to produce the desired external balance. The U.S.A. was unwilling to create such a situation. The Viet Nam war escalated from 1965. To finance the war, easy monetary policies were pursued and consequently inflation followed. This in turn weakened the balance of current account during 1968-69. The Europeans could also have helped in improving the situation by revaluing the currencies and reducing their surpluses. But they were unwilling to do so as they believed that a deficit country should devalue its currency rather than expect the surplus countries to revalue their currencies.

By early 1971, the situation reached to a climax. The U.S. balance of payments deficits rose to a new height; surpluses in its balance of trade and services turned into deficit for the first time. The easy money policies of the U.S. to fight recession and the strict monetary policies of the surplus

countries of Europe especially West Germany to stop domestic inflation, added fuel to the fire. A massive dollar flight from the US to European countries took place. The European central banks found their U.S. dollar reserves swelling and as they were no more willing to hold massive sums of "unwarranted dollar" they presented huge sums of dollars to the U.S. for redemption into gold and other reserve assets. Under these pressures, the Bretton Woods System ultimately broke on 15 August 1971 when the President of the U.S.A. suspended the dollar convertibility into gold and allowed the U.S. dollar to float in the foreign exchange markets. Later, towards the end of 1971, the U.S. dollar was devalued by 7.9 per cent to be followed by another devaluation of 10 per cent in February 1973. Thereafter, the pegged exchange standard became a floating one and the dollar-gold exchange standard ceased to operate. These developments in exchange rates have important implications for developing countries including India.

## 1.2 Implications of Floating Rates for Developing Countries

The emergence of floating rates is expected to remove the deficiency of 'managed flexibility' by maintaining an equilibrium structure of exchange rates. The size of surplus and deficits in the balance of payments of countries whose currencies become undervalued and overvalued respectively

will be reduced on account of the orderly alterations in their exchange rates in the foreign exchange markets. This however, may be largely so in the case of developed countries. The developing countries may face certain difficulties as their economies are not very open. The trade gap which they face is very much structural. Exports from developing countries, barring the few lucky oil exporting countries, suffer from an inelastic demand in overseas markets as well as the domestic supply constraints. The demand constraints arise mainly on account of the low elasticity of demand for food stuffs, agricultural protection in the industrial countries, the increased share of services in the consumers budget, the shift towards less material intensive products in manufacturing, the substitution of synthetics for natural materials and the reduction of input requirement in individual industries.<sup>6</sup> The domestic supply constraints include lack of sufficient exportable surpluses, inflation and the relatively high prices for their goods.

On the side of imports, the volume and pattern are not so much determined by the market forces as by the strategy and policy of development adopted by the developing countries. Therefore the movements in the exchange rates have a relatively lesser role in influencing them than in the more open economies of advanced nations. Nevertheless the developing countries

6 For details see Ragnar Nurkse, Patterns of Trade and Development, Basil Black Well, Oxford, 1962, p.27.

cannot keep their exchange rates fixed when the major currencies are floating. They try to keep the fluctuations in the exchange rates of their currencies vis-a-vis other currencies in as narrow a band as possible. This is to contain cost push inflation in the domestic economy. Depreciation means a rise in export realisation in terms of domestic currency and hence an incentive for exports. At the same time, it also means a rise in domestic currency costs of imports. Possibility of higher export earnings through depreciation of domestic currency may not necessarily lead to higher exports than before because of domestic supply constraints and inelastic demand in overseas markets. On the other hand, immediate rise in import expenditure is certain meaning thereby inducement to cost push inflation in the domestic economy and higher trade deficit. Therefore, the desirable impact of depreciation depends on the extent to which it is likely to promote exports and more than compensate for the rise in total import costs of developing countries.

### 1.3 Objective of the Study

The 'two-gap theory' advocates that there are two basic constraints on the economic development of the developing countries. One is the 'ex-ante' savings gap which means that the investment requirements are greater than the

available savings in an economy. The other gap is the 'ex-ante' trade gap, which means that the import needs of a developing country are greater than the export earnings. . Though both these gaps retard the economic development, it is often contended that the 'trade gap' is the dominant constraint on the economic growth of the third world. Accordingly, it is also suggested that efforts should be directed towards reduction in the magnitude of the trade deficit in order to remove the constraint on economic development. This is possible by bringing about as much import saving and substitution as possible without affecting efficiency and increasing export earnings as much and as fast as possible. The developing countries have been trying to realise this aim by evolving suitable measures having a direct bearing on the import sector or the export sector or both. Among these measures, the management of exchange rate has been used both to control imports and expand exports. The objective of this study is to examine the impact of management of India's exchange rate on its balance of trade, composition of exports and imports and their direction. More precisely, we suggest and test the hypothesis that an appropriate management of exchange rate can effectively control and correct the persistent disequilibrium in India's balance of trade.

It is a well known fact that since Independence, India's balance of trade has shown an adverse trend with the exception

of the years 1972-73 and 1976-77 when there were some surpluses on this account. The effects of this trade gap on the balance of payments position has been adverse and increasingly disturbing. To meet out this adverse situation, the government has taken a large number of measures including the management of exchange rate. A study that seeks to analyse the impact of this policy instrument on India's balance of trade may therefore, be considered significant from the point of developing countries in general and for India in particular.

#### 1.4 Scope and Methodology

Exchange rate policy has important influences on the structure and balance of a country's trade, the magnitude of transfer items, the overall balance of payments situation, the foreign exchange reserves position and the burden of external debt and its servicing. The scope of the present study is, however, limited only to the first namely the impact of management of exchange rate on the structure and balance of India's foreign trade. Further the study has as its period of reference the years from 1960 to 1980. The significance of this period lies in the fact that after 1951 the issue of exchange rate of rupee has been widely debated since the early 1960s. Moreover, a period of 20 years is sufficient enough to arrive at a meaningful conclusion.

The methodology applied in this dissertation is empirical

in nature. We have tried to examine our hypothesis with the help of the data, taken from secondary sources, mainly from the Directorate General of Commercial Intelligence and Statistics. Other sources are too numerous to be mentioned here. Due acknowledgements have been given to them at appropriate place. Simple statistical techniques have been used to process the data.

### 1.5 Plan of the Study

The plan of the study is as follows: Chapter 2 discusses the relationship between foreign trade and economic development in a general as well as in the Indian context. This is followed in Chapter 3 which attempts an assessment of the trends in India's balance of trade during 1960-1980. Chapter 4 analyses the fluctuations in India's exchange rates in the context of the world major currencies and its effect on India's balance of trade. Finally Chapter 5 gives a summary and the main conclusions of the study.



## Chapter 2

### FOREIGN TRADE AND ECONOMIC DEVELOPMENT

#### 2.1 Introduction

In this chapter the role of international trade in the development process of developing countries in general and that of India in particular, will be discussed.

As a background to this main theme, the theoretical and historical relationship between trade and economic development is briefly reviewed in Section 2.2. Section 2.3 presents an analysis of this relationship from the view point of present day developing countries. The role of international trade in India's economic development is discussed in Section 2.4. The final section summarises the main conclusions of this chapter.

#### 2.2 Role of Trade in Economic Development

The classical and neo-classical economists fully recognised the importance of international trade in the growth process of a country and considered it to be a key and 'propulsive' sector as it can diffuse economic development into other sectors.

Adam Smith<sup>1</sup> (1723-1790) attacked the mercantilist view that in international trade one country can gain only at the cost of other countries. He showed convincingly through his model of absolute advantage how all countries would gain from international trade through international division of labour. In his model, one country has an absolute advantage over the other country in one line of production, and the other country has an absolute advantage over the first country in the other line of production. The two countries' internal pre-trade cost ratios are not the same. International terms of trade would lie somewhere between the opportunity cost ratios of the two countries, so that both the countries gain from trade in terms of production as well as consumption.

David Ricardo<sup>2</sup> went even further and he argued that even if the countries did not have absolute advantage in any line of production over the others, international trade would be beneficial to all the participating countries. Ricardian model which is termed as comparative advantage model suggests that a country should specialise in the production and export of those goods in which either its comparative advantage is greater or its comparative disadvantage

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1 Adam Smith, An Inquiry into the Nature and Causes of the Wealth of Nations, Vol. I, Everyman's Edition, 1776, Book IV, Chapter II.

2 David Ricardo, Principles of Political Economy and Taxation, Everyman's Edition, 1817.

is less; and it should import those goods, in the production of which its comparative advantage is less or comparative disadvantage is greater. Thereby, a country would be able to maximise its production and its consumption.

Trade widens the market and increases the inducement to invest. It promotes capital formation and brings sectoral and external economies in the industrial activities of a country. It helps a country to produce these goods which are competitive and exchange them for foreign goods with high growth potential. Trade also "strengthens the relations, both economic and political, with the other trading countries and provides an opportunity to enter into customs unions which bring forth trade, creating and trade diverting benefits. With the help of bilateral and multi-lateral arrangements, it multiplies the bargaining capacities of a country resulting in more capital formation and faster economic development. It intensifies the hidden talents of entrepreneurs and thus augments the 'comparative advantages' in a country."<sup>3</sup>

Haberler<sup>4</sup> has well summarised the major advantages of trade. They are:

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- 3 H.C. Sainy, India's Foreign Trade : Its Nature and Problems, National, New Delhi, 1979, pp. 1-2.
- 4 G. Haberler, International Trade and Economic Development, 5th Anniversary Commemoration Lectures at the National Bank of Egypt, Cairo, 1959, pp. 11-14. Quoted in H.C. Sainy, op.cit., p. 1.

- (i) it provides material means, viz., capital goods, machinery and raw semi-finished materials, which are indispensable for economic development;
- (ii) it is an important source of technological knowledge, managerial talents and entrepreneurship;
- (iii) it is supposed to be a transmitter of capital; and
- (iv) it brings an atmosphere of healthy competition by checking monopolies and restrictive practices.

Moreover, the historical evidence of a few advanced countries too demonstrates as to how trade has played a crucial role in quickening the pace of the economic development. Britain is a classic example where expanding exports of wool and textiles played a leading role in providing stimulus to the growth of the economy in the 19th century. Over the years 1870-1913 Britain exported roughly a fifth of its national income and a third of its industrial output. This proportion of gross product exported declined to 8.4 per cent in 1944-48. Subsequently it picked up to a level of 16 per cent during 1949-53, but dropped again to 13.8 per cent during 1957-63.<sup>5</sup> These movements in exports produced a parallel effect on the growth of Britain's industrial output and its national product. Britain imported

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5 For details see National Council of Applied Economic Research (NCAER), Export Strategy for India, New Delhi, June, 1969, pp. 2-3.

food-stuffs, beverages and other raw materials from its colonies in Asia, Africa and America. Similarly trade also brought growth to the United States of America when it received a large inflow of labour and foreign capital from Europe to which it exported foodstuffs and raw materials. Japan is another example where foreign trade has played a vital role in reconstructing the economy. Trade has widened the markets for the Japanese industries and provided them the supplies of crucial raw materials.

Foreign trade has also played a significant role in the economic development of France, Netherlands, Belgium, Germany and Italy.

In most of these countries foreign trade provided a conspicuous momentum to the economy and helped it on its way to industrialisation. Trade enabled them to bring into use their great unexploited natural resources and freed them from the limitations of their own domestic markets. Further it also provided the basis for an inflow of an increasing amount of foreign capital.<sup>6</sup> This, along with expansion of exports, led to a cumulative process of development in these countries. Thus for most of these countries, trade was an "engine of growth."<sup>7</sup>

6 For details see Ragnar Nurkse, Patterns of Trade and Development, Basil Blackwell, Oxford, 1962, p.17.

7 D.H. Robertson, "The Future of International Trade", in American Economic Association, Readings in the Theory of International Trade, Allen and Unwin, 1949, p.54.

### 2.3 Trade and Economic Development - A Third World Perspective

Today, however, most of the developing countries view foreign trade not as an "engine of growth", but as a mechanism of global income disparities between the rich and the poor countries. Their main complaints against trade are based on the following grounds:

First, they argue that trade was, and still is, an "engine of economic growth" to the less developed countries of the 18th and 19th centuries who are developed countries today, but this engine has lost steam for the less developed countries of the 20th century. According to Nurkse "the 19th century conditions were different: they happened to be such that the growth of the dominant economy, Great Britain, did tend to transmit itself to the periphery through an even more than proportional expansion in demand for crude materials and foodstuffs... This mechanism of growth transmission is now in comparatively low gear."<sup>8</sup> And the reasons which he advances to establish his case are: the low elasticity of demand for foodstuffs, agricultural protection in the industrial countries, the increased share of services in the consumer's budget, the shift towards less material-intensive products and the reduction of input requirement in individual industries.<sup>9</sup>

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<sup>8</sup> Ragnar Nurkse, op.cit., p.27.

<sup>9</sup> Ibid., p.23.

Secondly, it is maintained that the international terms of trade favour the rich countries and discriminate against the interests of the poor nations. Raul Prebisch<sup>10</sup> and Hans Singer<sup>11</sup> have developed their thesis suggesting that the developing countries specialising in the production and export of primary products have suffered a long-run deterioration in their terms of trade. This implies that there has been an international transfer of income from the poor to the rich countries and that the gains from international trade have gone more to developed countries at the expense of the former.

Thirdly, most of the developing countries believe that the pattern of comparative advantage and disadvantage that has emerged in the world today, is very frustrating to them. They have been forced by the developing countries to specialise along a narrow line of production and exports of primary agricultural goods and raw materials through the means of foreign aid, structure of tariff protection and comparative advantage argument. These goods suffer from several handicaps such as diminishing returns in production, falling demand, low income and price elasticities, low modernization and skills. On the other hand, the developed

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10 R. Prebisch, "The Role of Commercial Policies in Under-developed countries," American Economic Review (Papers and Proceedings), May 1959.

11 H. Singer, "The Distribution of Gains between Investing and Borrowing Countries", American Economic Review (Papers and Proceedings), May, 1950.

countries themselves have come to specialize in the production and exports of industrial manufactured goods which enjoy several advantages like increasing returns to scale conditions in production, growing demand, high income and price elasticities, high content of modernisation, education and skill. Consequently a structural deformity and an uncomfortable foreign trade dependence has been created for the developing countries.

Thus on the basis of the above noted grounds, it is concluded by many economists that it is erroneous to view trade as an 'engine of growth.' But still there are others who believe that "Trade is no mere exchange of goods least of all when it takes place between economies at different stages of development. As often as not, it is trade that gives birth to the urge to develop, the knowledge and experience that make development possible and the means to accomplish it."<sup>12</sup> In fact, economic growth and foreign trade are intimately connected. Trade can stimulate growth if exports increase faster than imports or retard growth if imports have a tendency to increase faster than exports, except in case of higher proportion of capital goods imports.<sup>13</sup>

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12 A.K. Cairncross, "The Contribution of International Trade to Economic Development" in Stephen Spiegelglas and Charles J. Welsh (Ed.), Economic Development: Challenge and Promise, Prentice-Hall, New Jersey, 1970, p.265.

13 A. Halder, India's Export Pattern: Analysis on Potential Diversification, Minerva Associates (Publications) Pvt. Ltd., Calcutta, 1976, p.2.



Developing countries believe that without rapid industrialisation they cannot solve their twin problems of poverty and unemployment. But industrialisation calls for a substantial amount of investment in a wide range of productive facilities and as most of these facilities are not available locally, it is through imports that a country is enabled to obtain them. In other words, if an under-developed country wishes to break the vicious circle of poverty, attain self sustained growth and transform itself from an agrarian economy to an industrialised one, it will have to import the various requisites of development. These imports have to be paid for through foreign loans or grants, foreign investment in the country, withdrawals from the accumulated holdings of foreign exchange, current export earnings, or a combination of these. Of these, it needs hardly any argument to demonstrate that exports are economically a better means of financing imports. If imports are financed by foreign loans, the loans apart from being inadequate and guided by various motives, both political and economic, carry interest and the principal has to be repaid. Similarly foreign participation in domestic economic activity involves remittance of profits and eventual repatriation of capital. All this means foreign exchange which can only be acquired through increased export earnings. No doubt, payment for imports may also be made by contracting

further loans, but that only means putting off the day of reckoning and building up more massive liabilities for the future. Likewise, withdrawals from reserves is not an unlimited process. Ultimately, it is, therefore, exports and more exports that constitute a key factor in economic development.

The foregoing discussion, thus, suggests that for the developing countries growth of foreign trade is of crucial importance.

#### 2.4 Foreign Trade and Economic Development in India

India is an exceptionally closed economy, with foreign trade constituting a very small part of her national income (Table 2.1). This has often led to the professional economists and policy makers to question and misunderstand the importance of foreign trade in the planned development of India. Moreover, it is also argued that the deteriorating terms of trade and the negative balance of trade have inhibited the trade sector to operate as an 'engine of growth' in India.<sup>14</sup>

While there may be some element of truth in the above noted arguments, but the importance of the contribution of the foreign trade to the Indian economy cannot be over-

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14 I.A. Qureshi, "International Trade and India's Economic Development", A.M.U., Aligarh, 1983, (Unpublished).

Table 2.1

Ratio of Exports and Imports to GDP for Selected Countries

| Countries   |     | (Percentage) |         |         |         |    |    |
|-------------|-----|--------------|---------|---------|---------|----|----|
|             |     | 1960         |         | 1970    |         |    |    |
|             |     | Exports      | Imports | Exports | Imports |    |    |
|             |     | Exports      | Imports | Exports | Imports |    |    |
| U.S.A.      | ... | 5            | 4       | 6       | 5       | 9  | 10 |
| Brazil      | ... | 6            | 7       | 7       | 7       | 7  | 10 |
| Indonesia   | ... | 13           | 13      | 13      | 16      | 31 | 24 |
| Malaysia    | ... | 53           | 39      | 41      | 36      | 50 | 42 |
| South Korea | ... | 3            | 13      | 14      | 24      | 30 | 37 |
| Pakistan    | ... | 6            | 10      | 8       | 11      | 13 | 24 |
| India       | ... | 5            | 8       | 4       | 5       | 7  | 8  |

Source: U.N., Yearbook of International Trade Statistics 1980-81, Vol. II,  
 Reproduced from V.N. Balasubramanyam, The Economy of India,  
 Weidenfeld and Nicolson, London, 1984, p. 182, Table 9.1

emphasised. It has been rightly observed by the Committee on Trade Policies that "In India the significance of foreign trade is qualitative rather than quantitative, and its role is akin to that of a bicycle chain which is needed to make the wheels go around and keep the economy on the move."<sup>15</sup> Trade has provided the much needed capital equipment and technical know-how in the form of imports to develop the industrial base of the economy and basic infrastructure. Quite often we have imported foodgrains also to meet domestic shortages caused by floods and failure of monsoons. In the absence of these imports, India's growth prospects would have suffered considerably. Similarly exports have not only provided means of financing imports but also helped in the overall expansion of the economy by making available the benefits of economies of scale and international specialisation.

Even today when India has emerged as the tenth most industrial country of the world and her industrial structure has been widely diversified covering broadly the entire range of consumer intermediate and capital goods (Tables 2.2 and 2.3) the contribution of international trade to the country's economic growth cannot be minimised. India's import pattern is such that a substantial part of it comprises

15 Government of India, Ministry of Commerce, Report of the Committee on Trade Policies (Chairman, Abid Hussain), December, 1984, p.81.

Table 2.2

Production of Selected Industries in India : 1960-61 to 1980-81

| Description                          | Unit        | 1960-61 | 1965-66 | 1969-70 | 1970-71 | 1975-76 | 1976-77 | 1977-78 | 1978-79 | 1979-80 | 1980-81 |
|--------------------------------------|-------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| <u>CONSUMER GOODS INDUSTRIES</u>     |             |         |         |         |         |         |         |         |         |         |         |
| Bicycles                             | '000 nos    | 1071    | 1574    | 1976    | 2042    | 2332    | 3680    | 3183    | 3743    | 3736    | 4189    |
| Cotton cloth                         | Mn metres   | 6738    | 7440    | 7753    | 7602    | 8091    | 7682    | 6834    | 7628    | 7533    | 8368    |
| Radio Receivers                      | '000 nos    | 282     | 606     | 1746    | 1794    | 1536    | 1685    | 1875    | 2001    | 2059    | 1734    |
| Sugar                                | '000 tonnes | 3029    | 3510    | 4261    | 3740    | 4264    | 4843    | 6462    | 5844    | 3859    | 5148    |
| Tea                                  | Mn Kgs      | 322     | 376     | 401     | 423     | 483     | 519     | 557     | 576     | 537     | 568     |
| Vanaspatti                           | '000 tonnes | 340     | 401     | 477     | 558     | 500     | 541     | 572     | 678     | 618     | 753     |
| Motor Cycles<br>& Scooters           | '000 nos    | 19.4    | 40.7    | 91.0    | 97.0    | 182.7   | 229.5   | 226.0   | 254.9   | 246.6   | 317.1   |
| <u>INTERMEDIATE GOODS INDUSTRIES</u> |             |         |         |         |         |         |         |         |         |         |         |
| Coal (including Lignite)             | Mn tonnes   | 55.7    | 70.3    | 80.0    | 76.3    | 102.7   | 105.0   | 104.6   | 105.2   | 106.8   | 118.8   |
| Iron ore                             | Mn tonnes   | 11.0    | 18.1    | 21.3    | 32.5    | 42.2    | 42.2    | 44.0    | 38.6    | 39.0    | 42.2    |
| Cement                               | Mn tonnes   | 8.0     | 10.8    | 13.8    | 14.3    | 17.2    | 18.8    | 19.3    | 19.3    | 17.6    | 18.6    |
| Cotton Yarn                          | Mn Kgs      | 801     | 907     | 962     | 929     | 1002    | 963     | 843     | 947     | 951     | 1067    |
| Automobile Tyres                     | Mn nos      | 1.44    | 2.31    | 3.62    | 3.79    | 5.40    | 6.25    | 6.17    | 7.14    | 7.06    | 7.97    |
| Automobile Tubes                     | Mn nos      | 1.35    | 2.27    | 2.90    | 3.45    | 4.53    | 5.56    | 5.25    | 6.18    | 5.63    | 6.92    |

Contd.

Table 2.2 (Contd.)

|                                   |             |       |       |       |       |       |       |       |        |        |        |
|-----------------------------------|-------------|-------|-------|-------|-------|-------|-------|-------|--------|--------|--------|
| Bicycle Tyres                     | Mn nos      | 11.15 | 18.46 | 21.32 | 19.20 | 24.50 | 22.86 | 28.53 | 32.18  | 27.61  | 27.00  |
| Bicycle Tubes                     | Mn nos      | 13.27 | 18.62 | 16.79 | 13.81 | 15.56 | 15.92 | 15.37 | 13.92  | 10.74  | 12.19  |
| Fertilisers                       | '000 tonnes | 166   | 357   | 954   | 1061  | 1828  | 2341  | 2670  | 2951   | 2983   | 3005   |
| Paper and<br>Paper Board          | '000 tonnes | 350   | 558   | 723   | 755   | 836   | 899   | 961   | 1011   | 1058   | 1149   |
| Petroleum<br>Refinery<br>Products | Mn tonnes   | 5.80  | 9.40  | 16.6  | 17.1  | 20.8  | 21.4  | 23.2  | 24.2   | 25.8   | 24.1   |
| <u>CAPITAL GOODS INDUSTRIES</u>   |             |       |       |       |       |       |       |       |        |        |        |
| Automobiles<br>Motor Vehicles     | '000 nos    | 55.0  | 70.7  | 79.8  | 87.9  | 72.7  | 91.3  | 84.4  | 103.4  | 104.6  | 121.1  |
| Diesel Engines<br>(Stationary)    | '000 nos    | 44.7  | 93.1  | 134.2 | 65.0  | 135.5 | 111.5 | 133.8 | 143.5  | 144.6  | 173.9  |
| Diesel Engines<br>(Vehicular)     | '000 nos    | 10.8  | 8.1   | 2.8   | 3.2   | 4.2   | 4.5   | 3.2   | 3.6    | 2.4    | 5.2    |
| Power Trans-<br>formers           | Mn Kva      | 1.41  | 4.46  | 5.66  | 8.09  | 13.69 | 15.09 | 16.13 | 20.48  | 18.63  | 19.46  |
| Electric<br>Motors                | Mn h.p.     | 0.73  | 1.75  | 2.28  | 2.72  | 3.53  | 3.68  | 3.96  | 3.94   | 3.74   | 4.06   |
| Electricity<br>Generated          | Bn KWh      | 16.90 | 33.00 | 52.00 | 55.80 | 79.20 | 88.30 | 91.40 | 102.50 | 104.60 | 110.80 |

Source : Government of India, "Economic Survey", 1974-75 and 1982-83, New Delhi.

Table 2.3

Year to Year Rates of Growth in Industrial Production  
in India.

| Year<br>(Financial)<br>Apr-Mar | (Percentage)     |                           |                             |                                     |
|--------------------------------|------------------|---------------------------|-----------------------------|-------------------------------------|
|                                | General<br>Index | Basic goods<br>industries | Capital goods<br>industries | Intermediate<br>goods<br>industries |
| 1962-63                        | 9.4              | 16.4                      | 23.9                        | 7.5                                 |
| 1963-64                        | 9.4              | 11.1                      | 14.8                        | 8.9                                 |
| 1964-65                        | 8.7              | 4.0                       | 21.5                        | 7.8                                 |
| 1965-66                        | 5.3              | 7.7                       | 6.4                         | 1.3                                 |
| Average                        | 8.25             | 9.8                       | 16.65                       | 6.4                                 |
| 1966-67                        | 0.6              | 5.1                       | -8.6                        | 0.5                                 |
| 1967-68                        | 1.2              | 2.7                       | -4.3                        | 3.2                                 |
| 1968-69                        | 6.6              | 10.7                      | 2.8                         | 5.1                                 |
| 1969-70                        | 7.7              | 8.9                       | 1.9                         | 4.0                                 |
| 1970-71                        | 4.0              | 3.4                       | 5.5                         | 0.8                                 |
| Average                        | 4.02             | 6.16                      | - 0.54                      | 2.72                                |
| 1971-72                        | 5.7              | 6.2                       | 1.7                         | 7.3                                 |
| 1972-73                        | 3.9              | 4.8                       | 5.3                         | 4.5                                 |
| 1973-74                        | 0.8              | - 2.0                     | 16.7                        | 2.7                                 |
| 1974-75                        | 3.2              | 6.5                       | - 0.3                       | -1.9                                |
| 1975-76                        | 7.2              | 15.4                      | 2.3                         | 4.8                                 |
| Average                        | 4.16             | 6.18                      | 5.14                        | 3.5                                 |
| 1976-77                        | 9.6              | 11.7                      | 14.1                        | 4.9                                 |
| 1977-78                        | 3.3              | 3.2                       | - 0.6                       | 3.5                                 |
| 1978-79                        | 7.6              | 6.0                       | 11.0                        | 7.5                                 |
| 1979-80                        | -1.4             | - 0.5                     | - 2.6                       | 1.8                                 |
| 1980-81                        | 4.0              | 3.9                       | 7.2                         | 1.3                                 |
| Average                        | 4.62             | 4.9                       | 5.82                        | 3.8                                 |
| 1981-82                        |                  |                           |                             |                                     |
| Average                        |                  |                           |                             | 5.4                                 |

Source: R.B.I. Bulletin, January, 1984.

machinery and equipment, maintenance materials and petroleum and its products.<sup>16</sup> These imports cannot be reduced without jeopardising the growth of the Indian economy. And exports are the major means to ultimately pay for the imports.

Further the importance of foreign trade in the Indian economy can also be judged by the increasing realization on the part of the planners that in the context of planned economic development, foreign trade and an appropriate trade policy are necessary. It is a well known fact that during the first two Five Year Plans, it was not realised that foreign trade could be used as an instrument of economic growth, nor were any efforts made in the direction of export promotion or import substitution, except on an ad hoc basis. The foreign trade policy lacked a definite direction.<sup>17</sup> But the foreign exchange crisis that developed during the Second Plan period made it imperative for the planners to give emphasis on export maximisation and import minimisation during the Third Plan. The urgency of reorienting foreign trade policy, so as to subserve the needs of a developing economy, was, fully

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16 For details see Chapter III.

17 S.K. Modwel and M.L. Varma, Export Effort of India, Indian Institute of Foreign Trade, New Delhi, 1986, p.5, A more extensive account of India's trade policy can be found in J.N. Bhagwati and P. Desai, India: Planning for Industrialisation, London, Oxford Univ. Press, 1970; J.N. Bhagwati and T.N. Srinivasan, Foreign Trade Regimes and Economic Development: India, London, Macmillan, 1976, and Rameshwar Tandon, Some Perspectives on India's Trade Policy, Chugh Publications, Allahabad (INDIA), 1983.



realised. Since then, there has been a perceptible change in attitudes towards the role of foreign trade in India's development process. Indicative of this change in attitudes is the high priority accorded to foreign trade by the Government of India in the form of liberalisation of imports and promotion of exports through several administrative, fiscal and monetary policy measures.<sup>18</sup>

The role of foreign trade in economic development of India is thus well recognised. However, a very disquieting feature of India's foreign trade during the period 1960-61 to 1980-81, excepting the years 1972-73 and 1976-77, was the continuance of deficit in trade account. The deficit in 1950-51 was a mere Rs. 78.12 crores which increased to Rs. 260.53 crores in 1955-56 and further to Rs. 505.96 crores in 1959-60.<sup>19</sup> After that it rose more or less continuously.<sup>20</sup> Such a high level of trade deficit produced adverse effects on the balance of payments position of the country and the government adopted various policies bearing on imports, exports and exchange rate to meet the situation. The import policy was "formulated keeping in view the limited foreign exchange reserves of the country, shortages of essential consumer goods in the economy, requirements of capital goods,

18 Government of India, Economic Survey 1986-87, pp. 97-101.

19 H.C. Sainy, op.cit., Table 11, p.10.

20 For details see Chapter III, Table 3.1

machinery, spare parts and components for the building up of heavy basic industries and the role and scope of imports substitution in the country."<sup>21</sup> The policy of import substitution was pursued with the two broad objectives: (a) to save foreign exchange for the import of more important goods, and (b) to achieve self reliance in the production of as many goods as possible. As a result of this policy, the country was able to increase the production of many industrial products and the structure of imports underwent significant changes. P. Leela has examined the progress of import substitution in Indian economy over the period 1950-51 to 1977-78.<sup>22</sup> Tables 2.4 and 2.5 reproduced from his study reveal important trends in import substitution.

From Tables 2.4 and 2.5, it is clearly evident that the progress of import substitution during the period under consideration was significant in the case of sugar mill machinery, caustic soda, soda ash, aluminium, textile machinery and paper and paper boards, etc.

To promote exports, the Government used a host of policies which included among others the duty draw back system, the

21 S.K.Misra and V.K. Puri, Indian Economy, Himalaya Publishing House, 1986, p. 777.

22 P. Leela, "Trends in India's Foreign Trade and Import Substitution", Foreign Trade Review, New Delhi, Vol.XV, No. 4, Jan-March, 1981, pp. 389-409.

Table 2.4

Progress of Import Substitution in the Indian Economy

| Commodity                | Unit                      |                      | 1950-51        | 55-56           | 60-61           | 65-66           | 70-71           | 71-72 |
|--------------------------|---------------------------|----------------------|----------------|-----------------|-----------------|-----------------|-----------------|-------|
| Foodgrains               | Million tonnes            | a) 60.60<br>b) (5.9) | 71.9<br>(1.7)  | 84.5<br>(4.7)   | 86.9<br>(9.7)   | 107.2<br>(2.8)  | 104.8<br>(1.8)  |       |
| Raw cotton*              | Lakh bales of 180 kg each | a) 39.9<br>b) (27.8) | 49.6<br>(12.3) | 58.4<br>(16.4)  | 64.3<br>(10.9)  | 72.8<br>(11.1)  | 73.3<br>(10.0)  |       |
| Sugar mill machinery     | Rs.lakhs                  | a) 160<br>b) (100.0) | 419<br>(95.2)  | 545<br>(19.3)   | 776<br>(0.8)    | 11398<br>(0.6)  | 1772<br>(0.1)   |       |
| Textile machinery**      | Rs.lakhs                  | a) NA<br>b) NA       | 1233<br>(67.6) | 3361<br>(69.1)  | 7505<br>(37.9)  | 6759<br>(13.2)  | 7990<br>(15.9)  |       |
| Iron and steel           | Thousand tonnes           | a) 1331<br>b) (25.2) | 2162<br>(13.9) | 3715<br>(35.7)  | 5416<br>(16.7)  | 5173<br>(13.4)  | 5864<br>(22.9)  |       |
| Soda ash                 | Thousand tonnes           | a) 75<br>b) (40.0)   | 154<br>(46.7)  | 251.6<br>(39.6) | 366.7<br>(9.7)  | 449.8<br>(neg)  | 500.1<br>(2.2)  |       |
| Aluminium                | Thousand tonnes           | a) 14.7<br>b) (72.8) | 23.5<br>(68.5) | 43.7<br>(58.1)  | 82.4<br>(25.6)  | 174.2<br>(3.7)  | 203.2<br>(10.3) |       |
| Caustic soda             | Thousand tonnes           | a) 34<br>b) (61.7)   | 96<br>(62.5)   | 139.8<br>(27.7) | 292.2<br>(25.4) | 371.1<br>(Neg)  | 388.7<br>(1.3)  |       |
| Bleaching powder         | Thousand tonnes           | a) 9.4<br>b) (61.7)  | 8.2<br>(61.0)  | 7.7<br>(20.8)   | 9.2<br>(20.6)   | 14.3<br>(Neg)   | 17.3<br>(Neg)   |       |
| Bicycles                 | Thousand Nos.             | a) 264<br>b) (62.5)  | 661<br>(22.4)  | 1071<br>(neg)   | 1582<br>(neg)   | 2042<br>(Neg)   | 1766<br>(neg)   |       |
| Sewing machines          | Thousand Nos.             | a) 56<br>b) (41.1)   | 125<br>(11.2)  | 304<br>(0.3)    | 433<br>(0.7)    | 236<br>(0.3)    | 313<br>(0.3)    |       |
| Newsprint                | Thousand tonnes           | a) 76<br>b) (100.0)  | 84<br>(95.2)   | 96<br>(76.0)    | 115<br>(73.9)   | 181<br>(79.6)   | 247<br>(83.8)   |       |
| Paper & paperboards etc. | Thousand tonnes           | a) 151<br>b) (23.2)  | 260<br>(26.9)  | 378<br>(7.4)    | 584<br>(4.5)    | 770<br>(1.9)    | 814<br>(1.4)    |       |
| Ammonium sulphate        | Thousand tonnes           | a) 423<br>b) (88.9)  | 607<br>(34.1)  | 755<br>(47.3)   | 1273<br>(67.0)  | 989<br>(16.1)   | 1100<br>(13.5)  |       |
| Man-made fibre & yarn    | Thousand tonnes           | a) NA<br>b) NA       | 31.9<br>(20.7) | 84.2<br>(25.4)  | 125.5<br>(6.0)  | 191.6<br>(10.0) | 193.1<br>(5.9)  |       |

Contd.)

Table 2.4 (contd.)

| Commodity                   | Unit                       |                      | 72-73          | 73-74           | 74-75           | 75-76          | 76-77           | 77-78              |
|-----------------------------|----------------------------|----------------------|----------------|-----------------|-----------------|----------------|-----------------|--------------------|
| Foodgrains                  | Million tonnes             | a) 103.1<br>b) (0.8) | 103.1<br>(0.8) | 105.4<br>(4.2)  | 108.5<br>(5.2)  | 116.8<br>(6.3) | 123.5<br>(4.1)  | 121.0<br>(0.2)     |
| Raw cotton *                | Lakh bales of 180 kg each. | a) 74.4<br>b) (6.7)  | 74.4<br>(6.7)  | 63.4<br>(5.0)   | 64.2<br>(1.2)   | 64.0<br>(3.2)  | 63.6<br>(6.3)   | 66.2***<br>(10.3)  |
| Sugar mill machinery        | Rs.lakhs                   | a) 1828<br>b) (0.4)  | 1828<br>(0.4)  | 2236<br>(0.3)   | 2705<br>(0.2)   | 3177<br>(0.2)  | 4013<br>(0.1)   | 5133<br>(neg)      |
| Textile machinery**         | Rs.lakhs                   | a) 8588<br>b) (19.1) | 8588<br>(19.1) | 10971<br>(15.6) | 14373<br>(11.6) | 13705<br>(3.5) | 16480<br>(9.6)  | 16216<br>(11.3)    |
| Iron and steel              | Thousand tonnes            | a) 6242<br>b) (19.6) | 6242<br>(19.6) | 5482<br>(18.5)  | 6110<br>(19.6)  | 6487<br>(8.9)  | 5690<br>(7.0)   | 5406<br>(1.1)      |
| Soda ash                    | Thousand tonnes            | a) 486.0<br>b) (0.6) | 486.0<br>(0.6) | 483.0<br>(0.5)  | 519.0<br>(0.6)  | 555.0<br>(neg) | 568.2<br>(nil)  | 573.1<br>(neg)     |
| Aluminium                   | Thousand tonnes            | a) 175.4<br>b) (1.0) | 175.4<br>(1.0) | 149.5<br>(1.1)  | 128.0<br>(1.1)  | 186.0<br>(3.9) | 209.9<br>(0.6)  | 182.1<br>(2.0)     |
| Caustic soda                | Thousand tonnes            | a) 391.8<br>b) (0.2) | 391.8<br>(0.2) | 424.5<br>(1.3)  | 427.2<br>(0.3)  | 469.0<br>(neg) | 505.6<br>(neg)  | 524.3<br>(neg)     |
| Bleaching powder            | Thousand tonnes            | a) 19.9<br>b) (neg)  | 19.9<br>(neg)  | 16.9<br>(neg)   | 19.9<br>(neg)   | -<br>-         | -<br>-          | -<br>-             |
| Bicycles                    | Thousand Nos.              | a) 2400<br>b) (neg)  | 2400<br>(neg)  | 2575<br>(neg)   | 2341<br>(neg)   | -<br>-         | -<br>-          | -<br>-             |
| Sewing machines             | Thousand Nos.              | a) 335<br>b) (0.3)   | 335<br>(0.3)   | 259<br>(0.6)    | 338<br>(0.8)    | -<br>-         | -<br>-          | -<br>-             |
| Newsprint                   | Thousand tonnes            | a) 194<br>b) (79.2)  | 194<br>(79.2)  | 166<br>(70.5)   | 205<br>(68.8)   | 154<br>(65.6)  | 183<br>(68.4)   | 223<br>(75.1)      |
| Paper and Paperboards, etc. | Thousand tonnes            | a) 755<br>b) (2.9)   | 755<br>(2.9)   | 744<br>(2.3)    | 777<br>(2.1)    | 799<br>(2.0)   | 913<br>(1.6)    | 983<br>(1.8)       |
| Ammonium sulphate           | Thousand tonnes            | a) 1243<br>b) (14.8) | 1243<br>(14.8) | 1139<br>(7.1)   | 1356<br>(12.8)  | 1587<br>(4.5)  | 1903<br>(0.1)   | 2031<br>(0.9)      |
| Man-made fibre and yarn     | Thousand tonnes            | a) 215.8<br>b) (5.4) | 215.8<br>(5.4) | 185.1<br>(31.1) | 205.8<br>(3.1)  | 204.5<br>(5.4) | 266.6<br>(11.0) | 410.9***<br>(35.7) |

- \* Due to change in source of data, the figures from 1973-74 onwards are not strictly comparable.
- \*\* Including spares and accessories. Due to change in source of data, the figures from 1965-66 are not strictly comparable with earlier years.
- \*\*\* Imports for these items are for April-December 1978.
- (-) Figures not given.

- Notes:
- a. Total estimated supplies.
  - b. Percentage of imports to total estimated supplies.
    1. In case of raw cotton, the total estimated supplies relate to the crop/agricultural years. For foodgrains, total supplies have been estimated on the basis of production for agricultural years and imports on financial year basis.
    2. In the case of food grains and raw cotton, the figures are three-year moving averages of a year before, the year concerned and year after except for 1974-75.
    3. Imports of ammonium sulphate relate to those imported for Central Fertiliser Pool.
    4. For man-made fibre and yarn, production relates to calendar year and imports for fiscal years.

SOURCE: Government of India, Economic Survey, 1971-72, 1975-76, 1976-77 and 1977-78. Reproduced from P. Leela, "Trends in India's Foreign Trade and Import Substitution", Foreign Trade Review, New Delhi, Vol. XV, No.4, Jan-March, 1981, Table VIII, pp. 404-405.

Table 2.5

Growth Rates of Selected Manufacturing  
Activities in the Indian Economy

| Commodity<br>(1)              | Period<br>(2)                 | Growth<br>rate (%)<br>(3) | t-value<br>(4) | R <sup>2</sup><br>(5) |
|-------------------------------|-------------------------------|---------------------------|----------------|-----------------------|
| Foodgrains                    | (a) 1950-51 to<br>(b) 1977-78 | 2.44*<br>- 3.57           | 18.37<br>0.97  | 0.97<br>0.09          |
| Raw cotton                    | (a) 1950-51 to<br>(b) 1977-78 | 1.65*<br>- 6.33*          | 4.61<br>2.95   | 0.68<br>0.47          |
| Sugar mill<br>machinery       | (a) 1950-51 to<br>(b) 1977-78 | 11.53*<br>-26.16*         | 18.04<br>7.35  | 0.97<br>0.84          |
| Textile machinery             | (a) 1955-56 to<br>(b) 1977-78 | 10.70*<br>-11.12*         | 10.91<br>5.72  | 0.93<br>0.78          |
| Iron and steel                | (a) 1950-51 to<br>(b) 1977-78 | 5.05*<br>- 5.16           | 7.65<br>1.84   | 0.85<br>0.25          |
| Soda ash                      | (a) 1950-51 to<br>(b) 1977-78 | 6.97*<br>-18.93*          | 12.59<br>7.74  | 0.94<br>0.86          |
| Aluminium                     | (a) 1950-51 to<br>(b) 1977-78 | 10.02*<br>-18.30*         | 11.93<br>6.32  | 0.93<br>0.80          |
| Caustic soda                  | (a) 1950-51 to<br>(b) 1977-78 | 9.27*<br>-21.03*          | 13.32<br>6.33  | 0.95<br>0.80          |
| Newsprint                     | (a) 1950-51 to<br>(b) 1977-78 | 4.09*<br>- 1.20*          | 6.87<br>4.46   | 0.83<br>0.67          |
| Paper & Paper<br>boards, etc. | (a) 1950-51 to<br>(b) 1977-78 | 6.38*<br>-10.99*          | 14.44<br>9.49  | 0.95<br>0.90          |
| Ammonium sulphate             | (a) 1950-51 to<br>(b) 1977-78 | 4.90*<br>-15.81*          | 8.74<br>3.31   | 0.88<br>0.52          |
| Man-made fibre<br>and yarn    | (a) 1955-56 to<br>(b) 1977-78 | 9.18*<br>- 4.39           | 9.86<br>1.20   | 0.92<br>0.14          |

\* Significant at 5 % level of significance.

Notes : (a) Total estimated supplies.

(b) Percentage of imports to total estimated supplies.

Source: P. Leela, op.cit., p.406.

market development assistance fiscal concessions for exports and the import policy for exports.<sup>23</sup>

Besides these, the Government also followed an exchange rate policy with a view to push exports and limit imports to narrow the gap between the two and improve the balance of trade position. The operation of this policy and its effect on trade balance is discussed in detail in Chapter 4.

## 2.5 Concluding Remarks

To conclude, foreign trade is of strategic importance for economic development of developing countries and India is not an exception. It is through imports that a country is enabled to obtain plant, machinery and equipment, components, raw materials, technical know-how, which are indispensable for accelerating economic development. Exports, on the other hand, provide the best and ultimate means of financing these imports. It is, therefore, essential that a balance should be maintained between imports and exports. But the development in India's foreign trade during the period under study has not been satisfactory on this count. The

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23 For a detailed account of India's export policies during the decades of the 1960s and 1970s, see Deepak Nayyar, India's Exports and Export Policies in the 1960s, Cambridge, Cambridge University Press, 1976 and Martin Wolf, India's Exports, London, Oxford Univ. Press, 1982, respectively.

balance of trade has been unfavourable to the country, excepting a year or two. This has adversely affected the balance of payments position of India. However, the government of the country has remained conscious of the magnitude of the problem and policies bearing on imports, exports and exchange have been deployed to meet the situation.



## Chapter 3

### TREND IN INDIA'S BALANCE OF TRADE : 1960-61 TO 1980-81

#### 3.1 Introduction

In the light of our observations in the preceding chapter, an assessment of the trends in India's balance of trade is essential. The present chapter sets to do this for the period 1960-61 to 1980-81. Section 3.2 analyses the size and growth of India's balance of trade in a macro-economic framework. Section 3.3 highlights the pattern of growth of India's imports and exports during the period 1960-61 to 1980-81. Section 3.4 examines India's trade balance with different countries of the world. Finally section 3.5 presents the main conclusions of this chapter.

#### 3.2 The Size and Growth of India's balance of trade

As already mentioned above, the period of this study is from 1960-61 to 1980-81. But a brief account of balance of trade picture on the eve of independence in 1947 and during the decade of fifties will be in order.

During the Second World War, the balance of trade was favourable to India. This was mainly due to the fact that Britain (then the main trading partner of India) imported items like leatherwear, clothing, foodstuffs and cement on a massive scale from India to meet its War requirements. As a result, India's exports received a boost. As against this, imports did not increase much because of the non-availability of required goods, transport problems etc. Consequently, India obtained a sizeable surplus on balance of trade with U.K. and by 1946, she had accumulated Rs. 1,733 crores worth of sterling.<sup>1</sup> This picture, however, changed in the following few years. Partition of the country necessitated bulk import of jute and cotton to meet the domestic requirements as the areas producing these items went to Pakistan. Imports also increased on account of release of pent up demand for imports suppressed during the War. Thus import bill increased substantially while exports remained stationary and on the eve of planning, the foreign trade of India showed an excess of imports over exports.

During the period of the First Plan (1951-55) the average annual exports amounted to Rs. 926 crores while the corresponding value of imports totalled Rs. 1,052 crores (table 3.1). This gave a deficit of Rs. 126 crores per annum on an average.

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1 Ruddar Datt and K.P.M. Sundharam, Indian Economy, S. Chand & Company, Ltd., New Delhi, 1985, p.641.

Table 3.1

India's Foreign Trade : 1951-52 to 1960-61  
(Value in Crores of post-devaluation rupees)

| Year               | Imports | Exports | Balance of Trade | Exports as % of Imports |
|--------------------|---------|---------|------------------|-------------------------|
| <u>FIRST PLAN</u>  |         |         |                  |                         |
| 1951-52            | 1,379   | 1,106   | - 273            | 78                      |
| 1952-53            | 1,002   | 873     | - 129            | 86                      |
| 1953-54            | 855     | 813     | - 42             | 93                      |
| 1954-55            | 998     | 918     | - 80             | 91                      |
| 1955-56            | 1,024   | 922     | - 102            | 79                      |
| Annual Average     | 1,052   | 926     | - 126            | 85                      |
| <u>SECOND PLAN</u> |         |         |                  |                         |
| 1956-57            | 1,423   | 977     | - 446            | 69                      |
| 1957-58            | 1,633   | 1,001   | - 632            | 61                      |
| 1958-59            | 1,424   | 903     | - 521            | 64                      |
| 1959-60            | 1,515   | 1,008   | - 507            | 67                      |
| 1960-61            | 1,767   | 1,012   | - 755            | 57                      |
| Annual Average     | 1,552   | 980     | - 572            | 63                      |

Source: Derived from S.K. Modkvel and N.L. Verma, op. cit., Annexure I, p.67.

Exports were able to meet 85 per cent of imports. This deficit increased many fold in the Second Plan (1956-61) when the level of imports averaged Rs. 1,552 crores per annum while exports averaged only Rs. 980 crores. The balance of trade deficit amounted to Rs. 572 crores per annum on an average. Exports were able to finance 63 per cent of imports only.

The main cause of heavy deficit in India's balance of trade during the Second Plan was the development strategy adopted which gave high priority to industrialisation with a big tilt in favour of heavy and basic industries. Such a development strategy necessitated heavy imports of capital equipment, machinery and technical know-how as they were not available within the country. The maintenance imports also increased substantially in this period. Besides these, because of internal shortages and rising prices, large scale imports of foodgrains had also to be resorted to. As a result, imports increased sharply during this period. As against this, a number of external and internal factors operated jointly to stagnate India's exports during the fifties.<sup>2</sup> External factors included stagnant world demand for many of India's primary exports, increased competition from other producers and tariffs

2 For a detailed analysis of causes of sluggishness of India's exports during the decade of the fifties see S.J. Patel, "Export Prospects and Economic Growth - India", Economic Journal, Sept. 1959, pp.490-506; B. Cohen, "The Stagnation of Indian Exports 1951-65", Quarterly Journal of Economics, Nov., 1964, pp.604-20 and Manmohan Singh, India's Export Trends and Prospects for Self-contained Growth, Oxford, Clarendon Press, 1964.

and other restrictions imposed by industrial countries. Among internal factors, the most important ones were higher production costs, poor quality, rising domestic demand and the failure on the part of the government of the country to vigorously promote its exports. The Government did not pay adequate attention to export perhaps because of a comfortable foreign exchange position at that period and the growing conviction that the international markets offer limited opportunities for India's traditional exports. As regards the non-traditional exports, it was thought that only after industrialisation has got underway, increased production at home would be reflected in larger export earnings.<sup>3</sup>

Exports, however, could not be ignored for long and it was admitted that "one of the main drawbacks in the past has been that the programme for exports has not been regarded as an integral part of the country's development effort under the Five-Year Plans."<sup>4</sup> Accordingly, more attention was paid to the development of exports during the Third Five Year Plan and this continued in the period thereafter. But even then exports did not succeed in financing imports fully. In fact, the gap between exports and imports widened during the period

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3 Government of India, Planning Commission, New Delhi, The Second Five Year Plan, pp. 98-99.

4 Government of India, Planning Commission, New Delhi, The Third Five Year Plan, p.137.

1960-61 to 1980-81. This is borne out by the table 3.2 which provides data on Indian exports, imports and the extent of the adverse balance of trade. It also provides information on the import financing ability of Indian exports.

It can be seen from table 3.2 that during the twenty years period, India's imports increased from Rs. 1,766.55 crores to Rs. 12,549.15 crores or by a little more than 610 per cent. During the same period exports increased rather slowly from Rs. 1,011.65 crores to Rs. 6,710.70 crores or by a little over 563 per cent. As a result of these trends in imports and exports, India's trade deficit escalated from Rs. 754.9 crores in 1960-61 to Rs. 5,838.45 crores in 1980-81 or by 673.41 per cent. Exports were able to finance 57.27 per cent of imports in 1960-61. This proportion fell down to 53.48 per cent in 1980-81.

The deterioration in trade deficit however, did not come about in a continuous manner. During the Third Plan (1961-66) and the first two Annual Plans (1966-68) the deficit in balance of trade was heavy and fluctuated around a mean value of Rs. 792.67 crores per annum.<sup>5</sup> This was because the level of imports remained far ahead of our exports during this period. Imports increased due to large import of machinery and equipment, industrial raw materials and technical know-how

5 Calculated from the data given in Table 3.2

Table 3.2

Trends in India's Balance of Trade : 1960-61 to 1980-81  
(Value in crores of post-devaluation rupees)

| Year    | EXPORTS    |                                | IMPORTS    |                                | Trade balance<br>(Rs. crores) | Export as %<br>of Imports |
|---------|------------|--------------------------------|------------|--------------------------------|-------------------------------|---------------------------|
|         | Rs. crores | % change<br>over<br>Prev. Year | Rs. crores | % change<br>over<br>Prev. Year |                               |                           |
| 1960-61 | 1,011.65   | -                              | 1,766.55   | -                              | - 754.90                      | 57.27                     |
| 1961-62 | 1,040.04   | 2.81                           | 1,716.84   | - 2.81                         | - 676.80                      | 60.58                     |
| 1962-63 | 1,079.63   | 3.81                           | 1,782.08   | 3.80                           | - 702.45                      | 60.58                     |
| 1963-64 | 1,249.35   | 15.72                          | 1,925.99   | 8.08                           | - 676.64                      | 64.87                     |
| 1964-65 | 1,285.67   | 2.91                           | 2,124.72   | 10.32                          | - 839.05                      | 60.51                     |
| 1965-66 | 1,268.88   | -1.31                          | 2,218.43   | 4.41                           | - 949.55                      | 57.20                     |
| 1966-67 | 1,166.77   | -8.05                          | 2,062.04   | -7.05                          | - 895.27                      | 56.58                     |
| 1967-68 | 1,198.69   | 2.74                           | 2,007.61   | -2.64                          | - 808.92                      | 59.71                     |
| 1968-69 | 1,360.02   | 13.46                          | 1,858.87   | -7.41                          | - 498.85                      | 73.16                     |
| 1969-70 | 1,413.28   | 3.92                           | 1,582.10   | -14.89                         | - 168.82                      | 89.33                     |
| 1970-71 | 1,535.16   | 8.62                           | 1,634.20   | 3.29                           | - 99.04                       | 93.94                     |
| 1971-72 | 1,608.22   | 4.76                           | 1,824.54   | 11.65                          | - 216.32                      | 88.14                     |
| 1972-73 | 1,970.83   | 21.93                          | 1,867.44   | 2.35                           | - 103.39                      | 105.54                    |
| 1973-74 | 2,523.40   | 28.69                          | 2,955.37   | 58.26                          | - 431.97                      | 85.38                     |
| 1974-75 | 3,328.83   | 31.92                          | 4,518.78   | 52.90                          | - 1189.95                     | 73.67                     |
| 1975-76 | 4,036.26   | 21.25                          | 5,264.78   | 16.51                          | - 1228.52                     | 76.67                     |
| 1976-77 | 5,142.25   | 27.40                          | 5,073.79   | -3.63                          | - 68.46                       | 101.35                    |
| 1977-78 | 5,407.87   | 5.17                           | 6,020.23   | 18.65                          | - 612.36                      | 89.83                     |
| 1978-79 | 5,726.26   | 5.89                           | 6,814.30   | 13.19                          | - 1088.04                     | 84.03                     |
| 1979-80 | 6,418.43   | 12.09                          | 9,142.58   | 34.17                          | - 2724.15                     | 70.20                     |
| 1980-81 | 6,710.70   | 4.55                           | 12,549.15  | 37.26                          | - 5838.45                     | 53.48                     |

Source: Director General of Commercial Intelligence and Statistics, Calcutta.

needed for industrialisation programme of the country. Aggression by China and Pakistan also added to our import bill as the defence needs had increased. Further, poor harvests in the country in successive years necessitated imports of large quantity of foodgrains and cereals. Added to these, the devaluation of the Indian rupee on 6 June 1966, further compounded the balance of trade position.<sup>6</sup>

The period of the last annual plan (1968-69) and the Fourt Five Year Plan (1969-74) however, witnessed a marked improvement in India's balance of trade position when the deficit got reduced to much lower level. It amounted to Rs. 498.85 crores in 1968-69; Rs. 168.82 crores in 1969-70; Rs. 99.04 crores in 1970-71 and Rs. 216.32 crores in 1971-72. There was a favourable balance of trade of Rs. 103.39 crores in 1972-73 for the first time after independence. Policies of import restriction and reduction in foodgrain imports coupled with various innovative and promotional schemes of export promotion were mainly responsible for this healthy development on trade front. But this comfortable position did not last for long. In October 1973 and once again in January 1974, the petroleum exporting countries announced dramatic increases in the prices of crude oil. The consequences were a sharp increase in India's import bill and a reappearance of trade deficit of Rs. 431.97 crores in 1973-74.

6 For details see Chapter 4, Section



Thereafter the trade deficit increased to Rs. 1,189.95 crores in 1974-75 and further to Rs. 1,228.52 crores in 1975-76.

The year 1976-77, however, recorded a favourable trade balance of Rs. 68.46 crores for the second time after independence. This became possible on account of 27.40 per cent increase in the value of exports and a decline of 3.63 per cent in the value of imports over the year 1975-76. But this situation changed again in the following year and the deficit increased consistently reaching the all time record figure of Rs. 5,838.45 crores in 1980-81. Among other things the near trebling of international price of oil was largely responsible for this mounting trade deficit.

Thus the above analysis reveals that India has been suffering from a chronic balance of trade deficit. This is also confirmed by the figures in table 3.3 which show that imports as a percentage of GNP have been greater as compared to exports. However, it is interesting to note that the rise in the import bill during most part of the period under review was mainly connected with the rise in unit prices rather than quantum of imports. This can be seen from table 3.4.

This table reveals that the unit value index of imports (with 1968-69 = 100) showed an increase from 68 in 1960-61 to 354 in 1980-81, i.e., by 421 per cent. During the same period, the quantum index of imports increased from 85 to 191, i.e., by 125 per cent. Table 3.4 also shows that the

Table 3.3

Ratio of India's Exports, Imports and Balance of  
Trade to G.N.P. : 1960-61 to 1980-81

| Year    | Exports | Imports | (Percentage)     |
|---------|---------|---------|------------------|
|         |         |         | Balance of Trade |
| 1960-61 | 7.23    | 12.62   | - 5.39           |
| 1961-62 | 7.03    | 11.60   | - 4.57           |
| 1962-63 | 6.84    | 11.33   | - 4.47           |
| 1963-64 | 6.95    | 10.71   | - 3.76           |
| 1964-65 | 6.09    | 10.06   | - 3.97           |
| 1965-66 | 5.80    | 10.15   | - 4.34           |
| 1966-67 | 4.62    | 8.17    | - 3.55           |
| 1967-68 | 4.05    | 6.78    | - 2.73           |
| 1968-69 | 4.49    | 6.14    | - 1.65           |
| 1969-70 | 4.22    | 4.72    | - 0.50           |
| 1970-71 | 4.21    | 4.48    | - 0.27           |
| 1971-72 | 4.13    | 4.68    | - 0.55           |
| 1972-73 | 4.59    | 4.35    | 0.24             |
| 1973-74 | 4.72    | 5.53    | - 0.81           |
| 1974-75 | 5.29    | 7.18    | - 1.89           |
| 1975-76 | 6.10    | 7.96    | - 1.86           |
| 1976-77 | 7.21    | 7.12    | 0.09             |
| 1977-78 | 6.72    | 7.48    | - 0.76           |
| 1978-79 | 6.60    | 7.85    | - 1.25           |
| 1979-80 | 6.75    | 9.62    | - 2.87           |
| 1980-81 | 5.86    | 10.95   | - 5.09           |

Sources : Calculated on the basis of data given in Table 3.2 and GNP data available in Quarterly Economic Report of the Indian Institute of Public Opinion, New Delhi, Vol. XXVII, No.2, January 1983.

Table 3.4

## Trends in India's Terms of Trade : 1960-61 to 1980-81

(Base : 1968-69 = 100)

| Year    | QUANTUM INDEX |         | Gross terms<br>of Trade | UNIT VALUE INDEX |         | Net terms<br>of trade | Income terms<br>of trade |
|---------|---------------|---------|-------------------------|------------------|---------|-----------------------|--------------------------|
|         | Exports       | Imports |                         | Exports          | Imports |                       |                          |
| 1960-61 | 70            | 85      | 121                     | 66               | 68      | 97                    | 68                       |
| 1961-62 | 74            | 80      | 108                     | 66               | 70      | 94                    | 70                       |
| 1962-63 | 79            | 86      | 109                     | 64               | 67      | 96                    | 75                       |
| 1963-64 | 89            | 89      | 100                     | 63               | 69      | 91                    | 81                       |
| 1964-65 | 93            | 97      | 104                     | 64               | 70      | 91                    | 85                       |
| 1965-66 | 87            | 102     | 117                     | 68               | 74      | 92                    | 80                       |
| 1966-67 | 84            | 99      | 118                     | 102              | 106     | 96                    | 81                       |
| 1967-68 | 86            | 110     | 128                     | 102              | 96      | 106                   | 91                       |
| 1968-69 | 100           | 100     | 100                     | 100              | 100     | 100                   | 100                      |
| 1969-70 | 100           | 85      | 85                      | 104              | 100     | 104                   | 105                      |
| 1970-71 | 106           | 87      | 81                      | 106              | 100     | 106                   | 112                      |
| 1971-72 | 107           | 105     | 98                      | 108              | 93      | 116                   | 124                      |
| 1972-73 | 120           | 99      | 82                      | 120              | 97      | 124                   | 148                      |
| 1973-74 | 125           | 114     | 91                      | 146              | 138     | 106                   | 132                      |
| 1974-75 | 133           | 100     | 75                      | 183              | 239     | 77                    | 102                      |
| 1975-76 | 147           | 99      | 67                      | 197              | 280     | 70                    | 103                      |
| 1976-77 | 174           | 97      | 56                      | 210              | 278     | 76                    | 131                      |
| 1977-78 | 168           | 130     | 77                      | 236              | 249     | 95                    | 159                      |
| 1978-79 | 180           | 140     | 78                      | 234              | 260     | 90                    | 162                      |
| 1979-80 | 199           | 135     | 68                      | 236              | 360     | 66                    | 130                      |
| 1980-81 | 238           | 191     | 80                      | 207              | 354     | 58                    | 138                      |

## Sources:

R.B.I., Report on Currency and Finance, 1968-69 and 1973-74; Tata Services Limited, Department of Economics and Statistics, Statistical Outline of India, 1986-87, Bombay, June 1986, p.3, and G.O.I., Economic Survey, 1984-85, p. 162.

rise in unit prices of imports was greater than the rise in unit prices of exports. Export prices rose merely by 214 per cent between 1960-61 and 1980-81. The result was a deterioration in India's terms of trade over the period under review leading to the compounding of the problems of deficits in balance of trade.

### 3.3 The Commodity Pattern of Trade

The above analysis presents an aggregative view of the balance of trade from 1960-61 to 1980-81. But India's export as well as import consist of a wide variety of products. Therefore, it is essential to study the composition of trade in detail as it will be helpful in assessing its influences on the balance of trade.

The trend in imports of principal commodities for the period from 1960-61 to 1980-81 is shown in table 3.5. The important conclusions obtained from the table may be summarized as follows:

(1) The largest increase in the value of imports during this period took place in the case of petroleum, oil and lubricants. It rose from Rs. 109.49 crores in 1960-61 to Rs. 5263.5 crores in 1980-81, registering an increase of 4,707.3 per cent. Its share in the total imports in 1960-61 was only a meagre 6.2 per cent. From this, it shot up to nearly

Table 3.5

Trends in India's Imports of Major Commodities : 1960-61 to 1980-81  
(Value : In crores of Post-devaluation Rupees)

| Commodity                             | 1960-61           | 1965-66           | 1976-68           | 1968-69           | 1969-70           | 1970-71           | 1971-72           | 1972-73           |
|---------------------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| 1. Petroleum oil and lubricants       | 109.49<br>(6.20)  | 107.76<br>(4.86)  | 74.94<br>(3.73)   | 133.22<br>(7.17)  | 137.91<br>(8.72)  | 136.01<br>(8.32)  | 194.57<br>(10.66) | 204.27<br>(10.94) |
| 2. Machinery other than electric      | 320.31<br>(18.13) | 525.74<br>(23.70) | 336.56<br>(16.76) | 365.82<br>(19.68) | 280.35<br>(17.72) | 256.93<br>(15.72) | 270.86<br>(14.85) | 297.93<br>(15.95) |
| 3. Iron and Steel                     | 193.00<br>(10.93) | 154.26<br>(6.95)  | 106.29<br>(5.30)  | 86.20<br>(4.64)   | 81.51<br>(5.15)   | 147.09<br>(9.00)  | 237.60<br>(13.02) | 225.81<br>(12.09) |
| 4. Animal and vegetable oils and fats | 7.25<br>(0.41)    | 21.45<br>(0.97)   | 34.42<br>(1.71)   | 19.30<br>(1.04)   | 29.57<br>(1.87)   | 38.50<br>(2.36)   | 46.48<br>(2.55)   | 24.93<br>(1.33)   |
| 5. Transport equipment                | 114.01<br>(6.45)  | 111.12<br>(5.01)  | 80.93<br>(4.03)   | 66.38<br>(3.57)   | 51.22<br>(3.24)   | 66.54<br>(4.07)   | 94.59<br>(5.18)   | 100.12<br>(5.36)  |
| 6. Food & Live Animals                | 337.14<br>(19.08) | 557.68<br>(25.14) | 579.20<br>(28.85) | 403.06<br>(21.68) | 320.70<br>(20.27) | 271.77<br>(16.63) | 196.93<br>(10.79) | 159.75<br>(8.55)  |

(Contd.)

Table 3.5 (Contd.)

| Commodity                             | 1973-74           | 1974-75            | 1975-76            | 1976-77            | 1977-78            | 1978-79            | 1979-80            | 1980-81            |
|---------------------------------------|-------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| 1. Petroleum oil and Lubricants       | 560.64<br>(18.97) | 1157.03<br>(25.60) | 1256.10<br>(23.86) | 1413.40<br>(27.86) | 1556.40<br>(25.85) | 3023.50<br>(44.37) | 3267.10<br>(35.73) | 5263.50<br>(41.94) |
| 2. Machinery other than Electric      | 426.64<br>(14.44) | 404.00<br>(8.94)   | 576.70<br>(10.95)  | 731.50<br>(14.42)  | 694.70<br>(11.54)  | 769.60<br>(11.29)  | 806.90<br>(8.83)   | 1115.30<br>(8.89)  |
| 3. Iron and Steel                     | 249.46<br>(8.44)  | 424.00<br>(9.38)   | 311.90<br>(5.92)   | 219.50<br>(4.33)   | 259.90<br>(4.32)   | 462.50<br>(6.79)   | 868.60<br>(9.50)   | 852.40<br>(6.79)   |
| 4. Animal and vegetable oils and fats | 64.88<br>(2.20)   | 34.85<br>(0.77)    | 17.00<br>(0.32)    | 118.00<br>(2.33)   | 737.90<br>(12.26)  | 552.30<br>(8.11)   | 455.40<br>(4.98)   | 708.80<br>(5.65)   |
| 5. Transport equipment                | 94.97<br>(3.21)   | 131.00<br>(2.90)   | 157.10<br>(2.98)   | 170.70<br>(3.36)   | 225.20<br>(3.74)   | 296.80<br>(4.36)   | 338.60<br>(3.70)   | 472.00<br>(3.76)   |
| 6. Food & Live Animals                | 547.07<br>(18.51) | 855.04<br>(18.92)  | 1429.00<br>(27.14) | 955.70<br>(18.84)  | 232.50<br>(3.86)   | 245.30<br>(3.60)   | 291.50<br>(3.19)   | 388.90<br>(3.10)   |

(Contd.)

Table 3.5 (Contd.)

| Commodity   | 1960-61           | 1965-66           | 1967-68           | 1968-69           | 1969-70           | 1970-71           | 1971-72           | 1972-73           |
|---|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| 7. Fertilizers<br>Manufactured                    | 15.14<br>(0.86)   | 61.38<br>(2.77)   | 139.02<br>(6.92)  | 139.22<br>(7.49)  | 77.07<br>(4.87)   | 61.20<br>(3.74)   | 81.20<br>(4.45)   | 96.26<br>(5.15)   |
| 8. Non-Ferrous Metals                             | 74.51<br>(4.22)   | 107.81<br>(4.86)  | 88.68<br>(4.42)   | 88.83<br>(4.78)   | 74.27<br>(4.69)   | 119.03<br>(7.28)  | 101.66<br>(5.57)  | 108.40<br>(5.80)  |
| 9. Chemical elements<br>and compounds             | 61.96<br>(3.51)   | 56.48<br>(2.55)   | 77.37<br>(3.85)   | 82.87<br>(4.46)   | 67.42<br>(4.26)   | 67.99<br>(4.16)   | 71.85<br>(3.94)   | 91.38<br>(4.89)   |
| 10. Electric Machinery,<br>Apparatus & Appliances | 90.12<br>(5.10)   | 138.29<br>(6.23)  | 85.64<br>(4.27)   | 81.72<br>(4.40)   | 64.32<br>(4.07)   | 69.30<br>(4.24)   | 105.14<br>(5.76)  | 134.02<br>(7.18)  |
| 11. Metal Manufactures                            | 36.13<br>(2.05)   | 28.62<br>(1.30)   | 14.18<br>(0.71)   | 13.53<br>(0.73)   | 7.34<br>(0.46)    | 9.25<br>(0.57)    | 12.13<br>(0.66)   | 18.79<br>(1.01)   |
| 12. Raw cotton                                    | 128.74<br>(7.29)  | 72.77<br>(3.28)   | 83.48<br>(4.16)   | 90.18<br>(4.85)   | 82.78<br>(5.23)   | 98.83<br>(6.05)   | 113.39<br>(6.21)  | 90.88<br>(4.87)   |
| 13. Others  | 278.75<br>(15.78) | 275.07<br>(12.40) | 306.92<br>(15.29) | 288.54<br>(15.52) | 307.64<br>(19.45) | 291.76<br>(17.85) | 298.14<br>(16.34) | 519.17<br>(27.80) |
| 14. GRAND TOTAL                                   | 1766.55           | 2218.43           | 2007.61           | 1858.87           | 1582.10           | 1634.20           | 1824.54           | 1867.44           |

Table 3.5 (Contd.)

| Commodity   | 1973-74           | 1974-75           | 1975-76          | 1976-77           | 1977-78            | 1978-79          | 1979-80            | 1980-81              |
|---|-------------------|-------------------|------------------|-------------------|--------------------|------------------|--------------------|----------------------|
| 7. Fertilisers<br>Manufactured                    | 162.84<br>(5.51)  | 436.20<br>(9.65)  | 469.41<br>(8.92) | 197.72<br>(3.90)  | 258.12<br>(4.29)   | 370.72<br>(5.44) | 371.26<br>(4.06)   | 652.30<br>(5.20)     |
| 8. Non-Ferrous Metals                             | 138.63<br>(4.70)  | 176.67<br>(3.91)  | 100.40<br>(1.91) | 157.10<br>(3.10)  | 192.10<br>(3.19)   | 245.50<br>(3.60) | 353.40<br>(3.87)   | 477.40<br>(3.80)     |
| 9. Chemical Elements<br>and Compounds             | 109.66<br>(3.71)  | 178.82<br>(3.96)  | 180.20<br>(3.42) | 137.80<br>(2.72)  | 196.60<br>(3.27)   | 230.90<br>(3.39) | 323.60<br>(3.54)   | 358.20<br>(2.85)     |
| 10. Electric Machinery,<br>Apparatus & Appliances | 129.97<br>(4.40)  | 161.00<br>(3.56)  | 200.80<br>(3.81) | 145.30<br>(2.86)  | 190.40<br>(3.16)   | 193.60<br>(2.84) | 237.30<br>(2.60)   | 233.50<br>(1.86)     |
| 11. Metal Manufactures                            | 21.89<br>(0.74)   | 28.00<br>(0.62)   | 33.10<br>(0.63)  | 31.90<br>(0.63)   | 38.10<br>(0.63)    | 46.10<br>(0.68)  | 75.70<br>(0.83)    | 89.50<br>(0.71)      |
| 12. Raw Cotton                                    | 52.05<br>(1.76)   | 26.67<br>(0.59)   | 28.20<br>(0.54)  | 129.50<br>(2.55)  | 198.90<br>(3.30)   | 26.40<br>(0.39)  | 00.10<br>(0.001)   | Negligible<br>(0.00) |
| 13. Others  | 396.67<br>(13.42) | 505.50<br>(11.19) | 504.87<br>(9.59) | 665.67<br>(13.12) | 1239.41<br>(20.59) | 351.08<br>(5.15) | 1753.12<br>(19.18) | 1937.35<br>(15.44)   |
| 14. GRAND TOTAL                                   | 2955.37           | 4518.78           | 5264.78          | 5073.79           | 6020.23            | 6814.30          | 9142.58            | 12549.15             |

Note: Figures within brackets denote percentage shares in total imports.

Source: Reserve Bank of India Bulletin (various issues).



42 per cent in 1980-81. Imports of petroleum oil and lubricants absorbed about 79 per cent of our export earnings in 1980-81 (Table 3.6). This rapid increase in import-expenditure on petroleum products was mainly a result of the substantial increases in the prices by the OPEC countries from time to time.<sup>7</sup>

(2) Imports of machinery other than electric, increased from Rs. 320.31 crores in 1960-61 to Rs. 1,115.3 crores in 1980-81. However, the trend in imports of this item was not steady both in absolute as well as relative terms. Similarly imports of electrical machinery, apparatus and appliances also fluctuated from year to year.

(3) Imports of transport equipment had a fluctuating trend till 1973-74 but thereafter it recorded a steadily rising trend in money terms.

(4) Import expenditure on fertilisers and chemical products also increased considerably during the period under review. Imports of fertilisers amounted to Rs. 15.14 crores in 1960-61. This increased to Rs. 652.30 crores by 1980-81.

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7 The price of crude oil was around \$ 2.50 to \$ 3.00 per barrel in the middle of 1973. But it was dramatically raised to \$ 11.65 per barrel in early 1974. By late 1978 it moved to \$ 13.00 per barrel. However, in 1979 there was another bout of excessive increases and the price of crude oil almost trebled and settled around \$ 35.00 per barrel.

Table 3.6

India's Imports of Petroleum Oil and Lubricants :  
1960-61 to 1980-81

(Value in crores of post-devaluation rupees)

| Year    | Total Imports | % of over-all Imports | % of total Exports |
|---------|---------------|-----------------------|--------------------|
| 1960-61 | 109.49        | 6.20                  | 10.82              |
| 1965-66 | 107.76        | 4.86                  | 8.49               |
| 1967-68 | 74.94         | 3.73                  | 6.25               |
| 1968-69 | 133.22        | 7.17                  | 9.81               |
| 1969-70 | 137.91        | 8.72                  | 9.76               |
| 1970-71 | 136.01        | 8.32                  | 8.86               |
| 1971-72 | 194.57        | 10.66                 | 12.10              |
| 1972-73 | 204.27        | 10.94                 | 10.36              |
| 1973-74 | 560.64        | 18.97                 | 22.22              |
| 1974-75 | 1,157.03      | 25.60                 | 34.76              |
| 1975-76 | 1,256.10      | 23.86                 | 31.12              |
| 1976-77 | 1,413.40      | 27.86                 | 27.49              |
| 1977-78 | 1,556.40      | 25.85                 | 28.78              |
| 1978-79 | 3,023.50      | 44.37                 | 52.80              |
| 1979-80 | 3,267.10      | 35.73                 | 50.90              |
| 1980-81 | 5,263.50      | 41.94                 | 78.43              |

Source: Computed from data given in Tables 3.2 and 3.5.

During the same period imports of chemicals increased from Rs. 61.96 crores to 358.2 crores.

(3) Imports of food and live animals were the another important source of drainage of foreign exchange resources out of the country for most part of the period under review. These imports were resorted to meet the domestic requirements of the economy and amount to Rs. 337.14 crores in 1960-61 (constituting 19.08 per cent of total imports). This increased to the highest figure of Rs. 1,429.0 crores in 1975-76. They however, fell steeply in the years thereafter.

Thus the brief analysis of the pattern of import highlight the fact that it has been closely related to the efforts at industrialisation of the country.

The trends in exports of major commodities in terms of value and their percentage shares in total exports are shown in table 3.7. A perusal of this table reveals that the commodity pattern of growth in India's exports in the period 1960-61 to 1980-81 was more in favour of non-traditional items than that of traditional ones. However, the export experiences of some of the important products/ product group may be summarised as follows:

(1) Jute manufactures - In 1960-61, jute manufactures was the largest single item of India's exports with its value

Table 3.7

Trends in India's Exports of Major Commodities : 1960-61 to 1980-81  
(Value : in crores of post-devaluation Rupees)

| Commodity                              | 1960-61           | 1965-66           | 1967-68           | 1968-69           | 1969-70           | 1970-71           | 1971-72           | 1972-73           |
|--|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| 1. Handicrafts                         | 15.28<br>(1.51)   | 43.79<br>(3.45)   | 49.00<br>(4.09)   | 69.00<br>(5.07)   | 73.3<br>(5.19)    | 69.86<br>(4.55)   | 81.70<br>(5.08)   | 119.70<br>(6.07)  |
| 2. Engineering goods                   | 8.82<br>(0.87)    | 27.66<br>(2.18)   | 35.50<br>(2.96)   | 68.86<br>(5.06)   | 90.91<br>(6.43)   | 125.55<br>(8.18)  | 125.27<br>(7.79)  | 141.08<br>(7.16)  |
| 3. Leather and leather<br>manufactures | 39.33<br>(3.89)   | 44.81<br>(3.53)   | 53.45<br>(4.46)   | 72.67<br>(5.34)   | 81.54<br>(5.77)   | 72.18<br>(4.70)   | 90.14<br>(5.60)   | 170.45<br>(8.65)  |
| 4. Tea                                 | 194.67<br>(19.24) | 180.87<br>(14.25) | 180.20<br>(15.03) | 156.50<br>(11.51) | 124.50<br>(8.81)  | 148.30<br>(9.66)  | 156.31<br>(9.72)  | 147.29<br>(7.47)  |
| 5. Iron ore                            | 26.82<br>(2.65)   | 61.99<br>(4.89)   | 74.77<br>(6.24)   | 88.40<br>(6.50)   | 94.62<br>(6.70)   | 117.28<br>(7.64)  | 104.70<br>(6.51)  | 109.79<br>(5.57)  |
| 6. Fish and fish preparations          | 7.61<br>(0.75)    | 10.71<br>(0.84)   | 18.41<br>(1.54)   | 22.70<br>(1.67)   | 31.47<br>(2.23)   | 31.28<br>(2.04)   | 41.39<br>(2.57)   | 53.79<br>(2.73)   |
| 7. Chemical and allied<br>products     | 5.40<br>(0.53)    | 14.40<br>(1.13)   | 11.85<br>(0.99)   | 17.50<br>(1.29)   | 22.20<br>(1.57)   | 29.36<br>(1.91)   | 30.40<br>(1.89)   | 35.30<br>(1.79)   |
| 8. Jute manufactures                   | 212.86<br>(21.04) | 287.97<br>(22.69) | 234.09<br>(19.53) | 218.01<br>(16.03) | 206.65<br>(14.62) | 190.40<br>(12.40) | 263.29<br>(16.37) | 247.20<br>(12.54) |
| 9. Cotton textiles                     | 90.64<br>(8.96)   | 99.68<br>(7.86)   | 79.44<br>(6.63)   | 87.97<br>(6.47)   | 86.63<br>(6.13)   | 97.47<br>(6.35)   | 100.05<br>(6.22)  | 126.72<br>(6.43)  |

(Contd.)

Table 3.7 (contd.)

| Commodity                 | 1960-61           | 1965-66           | 1967-68           | 1968-69           | 1969-70           | 1970-71           | 1971-72           | 1972-73           |
|---------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| 10. Coffee                | 11.37<br>(1.12)   | 20.38<br>(1.61)   | 18.18<br>(1.52)   | 17.96<br>(1.32)   | 19.62<br>(1.39)   | 25.10<br>(1.64)   | 22.07<br>(1.37)   | 32.93<br>(1.67)   |
| 11. Sugar                 | 5.17<br>(0.51)    | 17.62<br>(1.39)   | 16.44<br>(1.37)   | 10.46<br>(0.77)   | 8.84<br>(0.63)    | 29.30<br>(1.91)   | 31.03<br>(1.93)   | 13.76<br>(0.70)   |
| 12. Oil cakes             | 22.52<br>(2.23)   | 54.56<br>(4.30)   | 45.47<br>(3.79)   | 49.47<br>(3.64)   | 41.47<br>(2.93)   | 55.42<br>(3.61)   | 40.15<br>(2.50)   | 74.77<br>(3.79)   |
| 13. Cashew kernel         | 29.78<br>(2.94)   | 43.16<br>(3.40)   | 43.03<br>(3.59)   | 60.93<br>(4.48)   | 57.42<br>(4.06)   | 52.07<br>(3.39)   | 61.33<br>(3.81)   | 68.82<br>(3.49)   |
| 14. Beverages and Tobacco | 24.84<br>(2.46)   | 34.16<br>(2.69)   | 35.60<br>(2.97)   | 33.80<br>(2.49)   | 33.36<br>(2.36)   | 32.57<br>(2.12)   | 45.11<br>(2.80)   | 64.05<br>(3.25)   |
| 15. Iron and Steel        | 15.37<br>(1.52)   | 19.51<br>(1.54)   | 54.84<br>(4.51)   | 78.94<br>(5.80)   | 86.80<br>(6.14)   | 67.20<br>(4.38)   | 25.50<br>(1.59)   | 23.10<br>(1.17)   |
| 16. Mica                  | 15.99<br>(1.58)   | 17.75<br>(1.40)   | 15.04<br>(1.25)   | 13.46<br>(0.99)   | 15.22<br>(1.08)   | 15.56<br>(1.01)   | 15.38<br>(0.96)   | 16.61<br>(0.84)   |
| 17. Vegetable oils        | 13.45<br>(1.33)   | 6.44<br>(0.51)    | 3.96<br>(0.33)    | 11.71<br>(0.86)   | 4.95<br>(0.35)    | 7.03<br>(0.46)    | 7.57<br>(0.47)    | 25.48<br>(1.29)   |
| 18. Others                | 271.73<br>(26.86) | 283.42<br>(22.34) | 229.42<br>(19.14) | 281.68<br>(20.71) | 333.78<br>(23.62) | 369.23<br>(24.05) | 351.33<br>(21.85) | 499.99<br>(25.37) |
| 19. GRAND TOTAL           | 1011.65           | 1268.88           | 1198.69           | 1360.02           | 1413.28           | 1535.16           | 1608.22           | 1970.83           |

Table 3.7 (contd.)

| Commodity                           | 1973-74          | 1974-75           | 1975-76           | 1976-77           | 1977-78           | 1978-79           | 1979-80           | 1980-81           |
|-------------------------------------|------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| 1. Handicrafts                      | 173.60<br>(6.88) | 186.60<br>(5.61)  | 224.11<br>(5.55)  | 455.70<br>(8.86)  | 751.80<br>(13.90) | 956.70<br>(16.71) | 832.49<br>(12.97) | 935.40<br>(13.94) |
| 2. Engineering goods                | 201.68<br>(7.99) | 357.57<br>(10.74) | 413.00<br>(10.23) | 566.30<br>(11.01) | 617.40<br>(11.42) | 700.70<br>(12.24) | 739.10<br>(11.52) | 727.00<br>(10.83) |
| 3. Leather and leather manufactures | 166.57<br>(6.60) | 133.88<br>(4.02)  | 201.48<br>(4.99)  | 264.20<br>(5.14)  | 248.00<br>(4.59)  | 327.70<br>(5.72)  | 485.60<br>(7.57)  | 337.10<br>(5.02)  |
| 4. Tea                              | 146.03<br>(5.79) | 228.06<br>(6.85)  | 236.90<br>(5.87)  | 293.10<br>(5.70)  | 569.70<br>(10.53) | 340.50<br>(5.95)  | 367.80<br>(5.73)  | 425.50<br>(6.34)  |
| 5. Iron ore                         | 132.87<br>(5.27) | 160.39<br>(4.82)  | 213.90<br>(5.30)  | 238.50<br>(4.64)  | 240.80<br>(4.45)  | 232.90<br>(4.07)  | 285.20<br>(4.44)  | 303.30<br>(4.52)  |
| 6. Fish and fish preparations       | 89.24<br>(3.54)  | 66.17<br>(1.99)   | 127.20<br>(3.15)  | 180.60<br>(3.51)  | 174.33<br>(3.22)  | 226.3<br>(3.95)   | 253.40<br>(3.95)  | 212.90<br>(3.17)  |
| 7. Chemical and allied products     | 50.30<br>(1.99)  | 92.91<br>(2.79)   | 85.30<br>(2.11)   | 110.80<br>(2.15)  | 116.70<br>(2.16)  | 148.10<br>(2.59)  | 197.80<br>(3.08)  | 225.60<br>(3.36)  |
| 8. Jute manufactures                | 225.73<br>(8.95) | 294.03<br>(8.83)  | 250.90<br>(6.22)  | 201.10<br>(3.91)  | 244.90<br>(4.53)  | 166.90<br>(2.91)  | 336.10<br>(5.24)  | 330.00<br>(4.92)  |
| 9. Cotton textiles                  | 239.89<br>(9.51) | 214.79<br>(6.45)  | 216.00<br>(5.35)  | 331.00<br>(6.44)  | 224.80<br>(4.16)  | 224.30<br>(3.92)  | 287.40<br>(4.48)  | 276.50<br>(4.12)  |
| 10. Coffee                          | 46.01<br>(1.82)  | 51.36<br>(1.54)   | 66.70<br>(1.65)   | 126.00<br>(2.45)  | 194.40<br>(3.59)  | 144.00<br>(2.51)  | 163.30<br>(2.54)  | 214.20<br>(3.19)  |

(Contd.)

Table 3.7 (Contd.)

| Commodity                 | 1973-74           | 1974-75           | 1975-76            | 1976-77            | 1977-78            | 1978-79            | 1979-80            | 1980-81            |
|---------------------------|-------------------|-------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| 11. Sugar                 | 43.36<br>(1.72)   | 339.71<br>(10.21) | 472.30<br>(11.70)  | 148.10<br>(2.88)   | 19.50<br>(0.36)    | 131.00<br>(2.29)   | 128.90<br>(2.00)   | 40.60<br>(0.61)    |
| 12. Oil cakes             | 170.60<br>(6.76)  | 95.70<br>(2.87)   | 96.50<br>(2.39)    | 234.40<br>(4.56)   | 133.30<br>(2.46)   | 109.90<br>(1.92)   | 127.50<br>(1.99)   | 125.10<br>(1.86)   |
| 13. Cashew kernel         | 74.43<br>(2.95)   | 118.14<br>(3.55)  | 96.10<br>(2.38)    | 106.10<br>(2.06)   | 149.50<br>(2.76)   | 80.20<br>(1.40)    | 118.10<br>(1.84)   | 140.10<br>(2.09)   |
| 14. Beverages and Tobacco | 70.97<br>(2.81)   | 82.26<br>(2.47)   | 98.37<br>(2.44)    | 102.40<br>(1.99)   | 117.20<br>(2.17)   | 116.30<br>(2.03)   | 113.54<br>(1.77)   | 140.68<br>(2.10)   |
| 15. Iron and Steel        | 26.18<br>(1.04)   | 21.06<br>(0.63)   | 68.20<br>(1.69)    | 290.50<br>(5.65)   | 185.40<br>(3.43)   | 221.90<br>(3.88)   | 32.70<br>(0.51)    | 69.70<br>(1.04)    |
| 16. Mica                  | 12.68<br>(0.50)   | 18.18<br>(0.55)   | 14.70<br>(0.36)    | 17.30<br>(0.34)    | 17.30<br>(0.32)    | 18.90<br>(0.32)    | 20.60<br>(0.32)    | 17.70<br>(0.26)    |
| 17. Vegetable oils        | 31.65<br>(1.25)   | 33.65<br>(1.01)   | 39.50<br>(6.98)    | 54.60<br>(1.06)    | 26.10<br>(0.48)    | 18.90<br>(0.33)    | 49.50<br>(0.77)    | 22.00<br>(0.33)    |
| 18. Others                | 621.61<br>(24.63) | 834.37<br>(25.06) | 1115.10<br>(27.63) | 1421.55<br>(27.64) | 1376.74<br>(25.46) | 1561.06<br>(27.26) | 1879.40<br>(29.28) | 2167.32<br>(32.30) |
| 19. GRAND TOTAL           | 2523.40           | 3328.83           | 4036.26            | 5142.25            | 5407.87            | 5726.26            | 6418.43            | 6710.70            |

Note: Figures within brackets denote percentage shares in total exports.

Source: Reserve Bank of India, Bulletin (various issues).

at Rs. 212.86 crores. In percentage terms, it accounted for 21.04 per cent of the country's total exports in that year. But thereafter, its exports started shrinking at least in relative terms reaching a meagre figure of 4.92 per cent in 1980-81. This depressing performance of export of jute manufactures was in general due to acute competition from substitutes, cheaper supplies and better credit facilities from competing countries like Bangladesh and escalation in domestic cost of production.

(2) Tea - Exports of tea, the second premier export item of India in 1960-61, also recorded a declining trend in relative terms. Its share in total exports declined from 19.24 per cent in 1960-61 to 9.66 per cent in 1970-71 and further to 6.34 per cent in 1980-81.

(3) Cotton textiles - Like export performance of jute manufactures and tea, export performance of cotton textiles was also not satisfactory during the period from 1960-61 to 1980-81. The increase in money value of exports over this period of 20 years was characterised by stagnation from time to time while the relative contribution to total export earnings declined from 8.96 per cent in 1960-61 to 6.35 per cent in 1970-71 and to 4.12 per cent in 1980-81. This was mainly due to the protectionist policies of the developed countries and lack of price competitiveness in India.



(4) Handicrafts - Exports of handicrafts increased strikingly and relatively in a more smooth and even manner, the increase being 6,021.7 per cent -- from Rs. 15.28 crores in 1960-61 to Rs. 935.40 crores in 1980-81. Equally spectacular was the rise in the share of this item in India's total exports -- from a mere 1.51 per cent in 1960-61 to 13.94 per cent in 1980-81. This tremendous rise in exports of handicrafts was due largely to favourable demand of the developed countries particularly North America and Western Europe.

(5) Engineering goods - From Rs. 8.82 crores in 1960-61, exports of engineering goods increased to Rs. 125.55 crores in 1970-71 and to Rs. 727.0 crores in 1980-81. As a result, their share in India's export earnings rose from a meagre 0.87 per cent in 1960-61 to 10.83 per cent in 1980-81. This was mainly due to the industrialisation policy of the country that resulted in the growth of industrial output, the industrial recession in the domestic economy during 1965-67, the 1966 devaluation of the rupee, and the demand boom in West Asia.<sup>8</sup>

(6) Chemicals and Allied Products - Exports of this item also increased substantially from Rs. 5.40 crores in 1960-61 to Rs. 29.36 crores in 1970-71 and further to Rs. 225.6

8 K.C.Reddy, India's Engineering Exports Since 1957 : An Analysis of Trends and Determinants, School of Economics, Andhra University, Waltair, 1982, p.38.

crores in 1980-81. The relative contribution of chemicals and allied products to total export earnings rose from 0.53 per cent in 1960-61 to 3.36 per cent in 1980-81.

Thus analysed we notice widely differing trends in the behaviour of India's major exports between 1960-61 and 1980-81. These trends however, lead to one conclusion: lessening of dependence on traditional items.

### 3.4 India's Trade Balance with the World

Although India has trade relations with almost all the countries of the world, the major trading partners are not more than a dozen in number. We have listed them in Table 3.8 with a view to examine the export-import trade of India with these countries separately. This will give us a better understanding of the balance of trade situation of India.

It can be seen from table 3.8 that the trade balance between India and the capitalist countries like U.S.A., Canada, West Germany, Australia, etc. was adverse in most part of the period under review. In fact, during this period the number of years in which India enjoyed a favourable trade balance with any of the above noted country did not exceed more than three years. However, with U.K. and Japan the number of years in which India enjoyed favourable trade balance was more than the number of years it experienced a

Table 3.8

## India's Trade Balance with Principal Countries :

| Country        | 1960-61 to 1980-81 |         |         |         |         |         |          | (Crores of rupees) |  |  |
|----------------|--------------------|---------|---------|---------|---------|---------|----------|--------------------|--|--|
|                | 1960-61            | 1961-62 | 1962-63 | 1963-64 | 1964-65 | 1965-66 | 1966-67* |                    |  |  |
| AUSTRALIA      | 22.39              | 15.95   | 18.71   | 17.65   | 19.99   | 17.54   | 22.00    |                    |  |  |
|                | 17.79              | 24.17   | 24.28   | 17.92   | 24.65   | 24.18   | 50.40    |                    |  |  |
|                | 4.60               | -8.22   | -5.57   | -0.27   | -4.66   | -6.64   | -28.40   |                    |  |  |
| CANADA         | 17.62              | 17.60   | 22.19   | 21.19   | 17.46   | 20.29   | 24.98    |                    |  |  |
|                | 19.86              | 18.55   | 16.87   | 23.97   | 26.52   | 30.52   | 85.41    |                    |  |  |
|                | -2.24              | -0.95   | 5.32    | -2.78   | -9.06   | -10.23  | -60.43   |                    |  |  |
| CZECHOSLOVAKIA | 7.30               | 8.10    | 11.24   | 16.16   | 15.92   | 15.83   | 23.19    |                    |  |  |
|                | 8.76               | 15.02   | 19.71   | 17.33   | 19.83   | 21.15   | 25.35    |                    |  |  |
|                | -1.46              | -6.92   | -8.47   | -1.17   | -3.91   | -5.32   | -2.16    |                    |  |  |
| FRANCE         | 8.84               | 8.16    | 9.28    | 11.11   | 12.08   | 11.24   | 18.15    |                    |  |  |
|                | 21.13              | 16.61   | 14.76   | 13.45   | 17.86   | 18.05   | 35.09    |                    |  |  |
|                | -12.29             | - 8.45  | -5.48   | -2.34   | -5.78   | -6.81   | -16.94   |                    |  |  |

(Contd.)

Table 3.8 (contd.)

| Country        | 1967-68 | 1968-69 | 1969-70 | 1970-71 | 1971-72 | 1972-73 | 1973-74 |
|----------------|---------|---------|---------|---------|---------|---------|---------|
| AUSTRALIA      |         |         |         |         |         |         |         |
| Exports        | 27.98   | 25.50   | 24.46   | 24.46   | 28.00   | 25.98   | 50.78   |
| Imports        | 64.96   | 25.72   | 31.31   | 36.58   | 29.40   | 33.55   | 43.81   |
| Balance        | -36.98  | -0.22   | -6.85   | -12.12  | -1.40   | -7.57   | 6.97    |
| CANADA         |         |         |         |         |         |         |         |
| Exports        | 29.77   | 29.71   | 26.33   | 27.96   | 39.41   | 28.20   | 31.09   |
| Imports        | 97.77   | 98.72   | 74.87   | 117.23  | 113.33  | 107.61  | 115.86  |
| Balance        | -68.00  | -69.01  | -48.54  | -89.27  | -73.91  | -79.41  | -84.77  |
| CZECHOSLOVAKIA |         |         |         |         |         |         |         |
| Exports        | 29.17   | 31.77   | 30.00   | 29.46   | 30.49   | 46.10   | 43.79   |
| Imports        | 27.34   | 35.27   | 23.02   | 20.20   | 10.17   | 15.91   | 26.71   |
| Balance        | 1.83    | -3.50   | 7.06    | 9.26    | 20.32   | 30.19   | 17.08   |
| FRANCE         |         |         |         |         |         |         |         |
| Exports        | 15.44   | 19.19   | 21.72   | 17.98   | 24.21   | 45.90   | 49.70   |
| Imports        | 34.42   | 36.50   | 23.73   | 21.33   | 37.07   | 39.85   | 70.29   |
| Balance        | -18.98  | -17.31  | -2.01   | -3.35   | -12.86  | 6.05    | -20.59  |

(Contd.)

Table 3.8 (Contd.)

| Country        | 1974-75 | 1975-76 | 1976-77 | 1977-78 | 1978-79 | 1979-80 | 1980-81 |
|----------------|---------|---------|---------|---------|---------|---------|---------|
| AUSTRALIA      | Exports | 66.00   | 48.21   | 66.04   | 82.56   | 88.52   | 91.62   |
|                | Imports | 118.00  | 101.67  | 249.33  | 72.48   | 91.97   | 170.08  |
|                | Balance | -52.00  | -53.46  | -183.29 | 10.08   | -3.45   | -78.46  |
| CANADA         | Exports | 44.00   | 45.80   | 49.54   | 46.01   | 48.23   | 62.55   |
|                | Imports | 131.00  | 232.01  | 129.40  | 181.21  | 240.33  | 226.48  |
|                | Balance | -86.00  | -186.21 | -79.86  | -135.20 | -192.10 | -163.93 |
| CZECHOSLOVAKIA | Exports | 60.00   | 34.71   | 44.86   | 52.13   | 36.12   | 42.59   |
|                | Imports | 33.00   | 53.01   | 34.19   | 29.14   | 30.92   | 51.68   |
|                | Balance | 27.00   | -18.30  | 10.67   | 22.99   | 5.20    | -8.73   |
| FRANCE         | Exports | 86.32   | 86.22   | 178.39  | 146.14  | 176.15  | 380.10  |
|                | Imports | 83.79   | 196.53  | 140.30  | 158.46  | 226.14  | 644.55  |
|                | Balance | 2.53    | -110.31 | 38.09   | -12.32  | -49.99  | -264.45 |

Table 3.8 (contd.)

| Country                        | 1960-61 | 1961-62 | 1962-63 | 1963-64 | 1964-65 | 1965-66 | 1966-67* |
|--------------------------------|---------|---------|---------|---------|---------|---------|----------|
| FEDERAL REPUBLIC<br>OF GERMANY | Exports | 19.87   | 20.63   | 16.27   | 20.15   | 17.69   | 18.16    |
|                                | Imports | 122.52  | 122.88  | 98.66   | 90.46   | 109.34  | 137.15   |
|                                | Balance | -102.65 | -102.25 | -82.39  | -70.31  | -91.65  | -118.99  |
| ITALY                          | Exports | 9.27    | 9.16    | 9.57    | 11.34   | 10.04   | 8.46     |
|                                | Imports | 25.97   | 26.33   | 22.21   | 17.42   | 22.62   | 19.86    |
|                                | Balance | -16.70  | -17.17  | -12.64  | -6.08   | -12.58  | -11.40   |
| IRAN                           | Exports | 5.41    | 4.76    | 6.42    | 4.76    | 4.90    | 5.99     |
|                                | Imports | 29.55   | 47.61   | 45.42   | 47.69   | 29.68   | 34.08    |
|                                | Balance | -24.14  | -42.85  | -39.00  | -42.93  | -24.78  | -28.09   |
| JAPAN                          | Exports | 35.27   | 40.54   | 33.42   | 58.85   | 60.90   | 57.12    |
|                                | Imports | 60.78   | 59.45   | 64.86   | 65.87   | 78.19   | 79.33    |
|                                | Balance | -25.51  | -18.91  | -31.44  | -7.02   | -17.29  | -22.21   |
| POLAND                         | Exports | 3.87    | 4.51    | 11.59   | 9.66    | 11.17   | 9.12     |
|                                | Imports | 4.42    | 9.16    | 8.13    | 10.54   | 15.38   | 13.66    |
|                                | Balance | -0.55   | -4.65   | 3.46    | -0.88   | -4.21   | -4.54    |

(Contd.)

Table 3.8 (contd.)

| Country                        | 1967-68 | 1968-69 | 1969-70 | 1970-71 | 1971-72 | 1972-73 | 1973-74 |
|--------------------------------|---------|---------|---------|---------|---------|---------|---------|
| FEDERAL REPUBLIC<br>OF GERMANY | Exports | 22.28   | 26.50   | 29.89   | 32.31   | 37.10   | 62.28   |
|                                | Imports | 143.16  | 120.09  | 84.44   | 107.47  | 127.04  | 172.68  |
|                                | Balance | -120.88 | -93.59  | -54.55  | -75.16  | -89.94  | -110.40 |
| ITALY                          | Exports | 17.81   | 18.06   | 12.94   | 14.01   | 24.22   | 48.85   |
|                                | Imports | 34.07   | 49.15   | 39.85   | 28.86   | 24.47   | 35.94   |
|                                | Balance | -16.26  | -31.09  | -26.91  | -14.85  | -0.25   | 12.91   |
| IRAN                           | Exports | 14.20   | 21.42   | 24.02   | 26.65   | 19.75   | 24.77   |
|                                | Imports | 32.12   | 86.40   | 83.43   | 91.64   | 126.36  | 121.98  |
|                                | Balance | -17.92  | -64.98  | -59.41  | -64.99  | -106.61 | -97.21  |
| IRAN                           | Exports | 135.92  | 158.33  | 179.36  | 203.48  | 182.27  | 217.16  |
|                                | Imports | 106.90  | 115.30  | 67.41   | 83.43   | 161.60  | 178.53  |
|                                | Balance | 29.02   | 43.04   | 111.95  | 120.05  | 20.67   | 38.63   |
| POLAND                         | Exports | 21.99   | 24.85   | 21.34   | 22.14   | 19.91   | 44.18   |
|                                | Imports | 23.70   | 21.80   | 23.56   | 28.03   | 50.45   | 36.25   |
|                                | Balance | -1.71   | 3.05    | -2.22   | -5.89   | -30.54  | 7.93    |

(Contd.)

Table 3.8 (Contd.)

| Country                        | 1974-75 | 1975-76 | 1976-77 | 1977-78 | 1978-79 | 1979-80 | 1980-81 |
|--------------------------------|---------|---------|---------|---------|---------|---------|---------|
| FEDERAL REPUBLIC<br>OF GERMANY | Exports | 106.17  | 117.91  | 229.98  | 244.51  | 272.07  | 380.10  |
|                                | Imports | 316.39  | 369.96  | 316.81  | 554.82  | 630.68  | 644.55  |
|                                | Balance | -210.22 | -252.05 | -86.83  | -310.31 | -358.61 | -264.45 |
| ITALY                          | Exports | 52.00   | 78.53   | 117.00  | 100.60  | 137.02  | 212.74  |
|                                | Imports | 78.00   | 79.95   | 57.00   | 86.95   | 121.33  | 179.54  |
|                                | Balance | -26.00  | -1.42   | 60.00   | 13.65   | 15.69   | 33.20   |
| IRAN                           | Exports | 215.00  | 272.29  | 146.98  | 116.59  | 93.51   | 96.11   |
|                                | Imports | 473.00  | 459.88  | 507.97  | 543.49  | 352.46  | 620.69  |
|                                | Balance | -258.00 | -187.59 | -360.99 | -426.90 | -258.95 | -524.58 |
| JAPAN                          | Exports | 296.88  | 432.76  | 544.38  | 505.83  | 595.06  | 646.26  |
|                                | Imports | 454.84  | 361.18  | 297.36  | 427.44  | 565.03  | 609.40  |
|                                | Balance | -157.96 | 71.58   | 247.02  | 78.39   | 30.03   | 36.86   |
| POLAND                         | Exports | 77.00   | 89.90   | 116.87  | 66.05   | 62.33   | 44.29   |
|                                | Imports | 94.00   | 81.04   | 38.13   | 58.87   | 43.62   | 60.68   |
|                                | Balance | -17.00  | 8.86    | 78.74   | 7.18    | 18.71   | -16.39  |
|                                |         |         |         |         |         |         | 36.56   |



Table 3.8 (Contd.)

| Country                  | 1960-61 | 1961-62 | 1962-63 | 1963-64 | 1964-65 | 1965-66 | 1966-67* |
|--------------------------|---------|---------|---------|---------|---------|---------|----------|
| U.K.                     |         |         |         |         |         |         |          |
| Exports                  | 172.48  | 160.94  | 163.22  | 163.67  | 167.30  | 145.71  | 173.84   |
| Imports                  | 217.15  | 200.15  | 185.56  | 171.46  | 163.65  | 150.09  | 134.55   |
| Balance                  | -44.67  | -39.21  | -22.34  | -7.79   | 3.65    | -4.38   | 39.29    |
| U.S.A.                   |         |         |         |         |         |         |          |
| Exports                  | 102.53  | 115.74  | 114.33  | 129.89  | 146.89  | 147.75  | 179.47   |
| Imports                  | 327.56  | 255.54  | 346.84  | 449.97  | 510.48  | 535.08  | 626.38   |
| Balance                  | -225.03 | -139.80 | -232.51 | -320.08 | -363.59 | -387.33 | -446.91  |
| U.S.S.R.                 |         |         |         |         |         |         |          |
| Exports                  | 28.81   | 32.20   | 38.25   | 52.10   | 77.92   | 92.99   | 101.51   |
| Imports                  | 15.87   | 39.94   | 58.64   | 68.46   | 78.78   | 83.17   | 88.39    |
| Balance                  | 12.94   | -7.74   | -20.39  | -16.36  | -0.86   | 9.82    | 13.12    |
| TOTAL (including others) |         |         |         |         |         |         |          |
| Exports                  | 642.32  | 660.34  | 685.48  | 793.24  | 816.30  | 805.64  | 967.44   |
| Imports                  | 1121.62 | 1090.06 | 1131.48 | 1222.85 | 1349.03 | 1408.53 | 1704.42  |
| Balance                  | -479.30 | -429.72 | -446.00 | -429.61 | -532.73 | -602.89 | -736.98  |

(Contd.)

Table 3.8 (Contd.)

| Country                  | 1967-68 | 1968-69 | 1969-70 | 1970-71 | 1971-72 | 1972-73 | 1973-74 |
|--------------------------|---------|---------|---------|---------|---------|---------|---------|
| U.K.                     |         |         |         |         |         |         |         |
| Exports                  | 229.03  | 201.51  | 165.07  | 170.44  | 168.70  | 172.53  | 263.15  |
| Imports                  | 157.86  | 127.87  | 102.59  | 126.76  | 220.81  | 237.25  | 252.17  |
| Balance                  | 71.17   | 73.65   | 62.48   | 43.68   | -52.11  | -64.72  | 10.98   |
| U.S.A.                   |         |         |         |         |         |         |         |
| Exports                  | 207.43  | 234.27  | 237.97  | 207.34  | 263.08  | 275.74  | 345.92  |
| Imports                  | 771.50  | 575.06  | 467.22  | 452.95  | 418.69  | 234.87  | 498.43  |
| Balance                  | -564.07 | -340.79 | -229.25 | -245.61 | -155.61 | 40.87   | -152.51 |
| U.S.S.R.                 |         |         |         |         |         |         |         |
| Exports                  | 121.79  | 148.31  | 176.37  | 209.85  | 208.70  | 304.82  | 286.01  |
| Imports                  | 95.82   | 185.51  | 171.33  | 106.13  | 87.32   | 114.37  | 254.73  |
| Balance                  | 25.97   | -37.20  | 5.04    | 103.72  | 121.38  | 190.45  | 31.28   |
| TOTAL (Including others) |         |         |         |         |         |         |         |
| Exports                  | 1198.69 | 1360.02 | 1413.28 | 1535.16 | 1608.22 | 1970.83 | 2523.40 |
| Imports                  | 2007.61 | 1858.87 | 1582.10 | 1634.20 | 1824.54 | 1867.44 | 2955.37 |
| Balance                  | -808.92 | -498.85 | -168.82 | -99.04  | -216.32 | 103.39  | -431.97 |

(Contd.)

Table 3.8 (contd.)

| Country                  | 1974-75  | 1975-76  | 1976-77 | 1977-78 | 1978-79  | 1979-80  | 1980-81  |
|--------------------------|----------|----------|---------|---------|----------|----------|----------|
| U.K.                     |          |          |         |         |          |          |          |
| Exports                  | 312.26   | 421.32   | 521.44  | 525.27  | 528.00   | 516.05   | 394.88   |
| Imports                  | 220.10   | 284.00   | 336.67  | 461.07  | 569.60   | 708.81   | 730.99   |
| Balance                  | 92.16    | 137.32   | 184.77  | 63.20   | -41.6    | -192.76  | -336.11  |
| U.S.A.                   |          |          |         |         |          |          |          |
| Exports                  | 374.93   | 519.98   | 569.06  | 677.02  | 771.62   | 816.99   | 743.34   |
| Imports                  | 736.78   | 1285.22  | 1053.01 | 755.87  | 761.91   | 926.07   | 1518.61  |
| Balance                  | -361.85  | -765.24  | -483.95 | -78.85  | 9.71     | -109.08  | -775.27  |
| U.S.S.R.                 |          |          |         |         |          |          |          |
| Exports                  | 421.35   | 416.69   | 453.81  | 656.88  | 411.36   | 638.23   | 1226.29  |
| Imports                  | 408.92   | 309.78   | 316.05  | 446.38  | 470.59   | 824.33   | 1013.71  |
| Balance                  | 12.43    | 106.91   | 137.76  | 210.50  | -59.23   | -186.10  | 212.58   |
| TOTAL (including others) |          |          |         |         |          |          |          |
| Exports                  | 3328.83  | 4036.26  | 5142.25 | 5407.87 | 5726.26  | 6418.43  | 6710.70  |
| Imports                  | 4518.78  | 5264.78  | 5073.79 | 6020.23 | 6814.30  | 9142.58  | 12549.15 |
| Balance                  | -1189.95 | -1228.52 | 68.46   | -612.36 | -1088.04 | -2724.15 | -5838.45 |

\* Refer to the period June to March only.

Note: The figures for 1966-67 to 1980-81 are in terms of devalued rupees and are not comparable with figures for 1960-61 to 1965-66 which are in pre-devaluation rupees.

SOURCE: Director General of Commercial Intelligence and Statistics, Calcutta.

trade deficit. Likewise with the Socialist countries of Eastern Europe, India's balance of trade was favourable in most of the years.

### 3.5 Concluding remarks

Summarising, we can say that India's balance of trade has all along been negative from the beginning of the Five Year Plans with the exception of the years 1972-73 and 1976-77. This can be attributed to larger imports of goods than the growth of export earnings of goods. India imported capital goods in the beginning to implement the heavy industry strategy of industrial development. At a later stage, most of the development imports consisted of maintenance goods and raw materials. Added to this, imports of foodgrains also increased tremendously at times of drought conditions. Furthermore, beginning with 1973-74 India's imports increased due to rapidly increasing prices of crude oil and petroleum products. As against this, the growth in India's exports was not sufficient to meet the country's growing import bills.

## Chapter 4

### IMPACT OF MANAGEMENT OF EXCHANGE RATE ON INDIA'S BALANCE OF TRADE

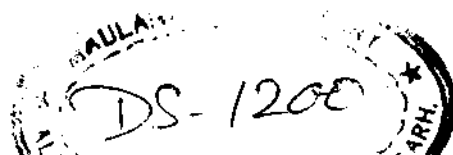
#### 4.1 Introduction

The analysis of India's trade balance attempted in the preceding chapter suggests that the country was suffering from a 'trade gap' throughout the period under review with the exception of two years when there were some surpluses on this account. This unwarranted situation called for measures which could bring about as much import saving and substitution as possible without jeopardising the growth of economy or increase export earnings as much and as fast as possible or both. Accordingly, measures related to control and regulation of imports and promotion of exports were adopted to correct the disequilibrium in trade balances. Among these measures the management of the exchange rate of rupee was the one that was deployed to achieve a viable balance of trade. The objective of this chapter is to assess the impact of this measure on India's balance of trade from 1960-61 to 1980-81 period. While doing so, we briefly describe the Indian

exchange rate policy during the period of the functioning of the Bretton Woods System of exchange rates and thereafter in Section 4.2. Section 4.3 highlights the effects of devaluation of the rupee in June 1966 on India's foreign trade. This is followed by an analysis of India's foreign trade from 1971-72 to 1980-81 in Section 4.4. This is the period when the rupee underwent significant real depreciation. Finally Section 4.5 presents the main conclusion of the present chapter.

#### 4.2 Indian Exchange Rate Policy

A country's exchange rate policy is broadly governed by the exchange rates mechanism of the international monetary system. Accordingly, during the period of the functioning of the Bretton Woods System of exchange rates, the Indian rupees was pegged to the Pound Sterling, the exchange rate being 1 Rupee = 1 Shilling 6 Pence (1s.6d). Alternatively, the rupee pound sterling rate was maintained at Rs. 13.33. As the sterling had a fixed parity with the U.S. dollar and the dollar a fixed parity with gold at \$ 35 per ounce of fine gold, the rupee had a fixed parity with gold at Re.1 = 0.268601 gm of fine gold or one Rupee = 30.225 U.S. Cents or \$ 1 = 3.309 Rupees. The stability of the exchange rate was maintained within margins of  $\pm 1$  per cent of the parity by the Reserve Bank's undertaking to buy and sell spot pound sterling



against the rupee at fixed buying and selling rates. The exchange rates of the rupee for other currencies were determined on the basis of cross rates of these currencies against the sterling and the rupee-sterling rate. In September 1949 the pound sterling was devalued by 30.5 per cent against the dollar. India followed suit and devalued its currency by the same degree and kept the parity with pound sterling unchanged. But the gold content of rupee was reduced from 0.268601 gm of gold to 0.186210 gm. Consequently, the rupee-U.S. dollar rate also changed from Rs. 3.309 to Rs. 4.7619 or from 30.225 U.S. cents per rupee to 21.000 cents.

Thereafter, the exchange rate of the rupee remained unchanged until June 6, 1966, when it was devalued by 36.5 per cent. The dollar-rupee rate was changed from Rs. 4.76 to Rs. 7.50. The rupee-pound sterling parity got altered almost after 40 years from Rs. 13 to Rs. 21. The gold parity of the rupee was reduced from 0.186621 grams to 0.118489 grams. However, in November 1967 the pound sterling was devalued. But this time India did not follow suit and as a result, the rupee appreciated by 14.29 per cent. The sterling-rupee rate changed from Rs. 21.00 to Rs. 18.00 per pound while the rupee-dollar rate remained unchanged at \$ 1 = Rs. 7.50. The gold parity of the rupee also remained undisturbed at 0.118489 gm of fine gold.

But the exchange rate of rupee got disturbed a great

deal since mid-August 1971 when the Bretton Woods System ultimately broke down and the system of "managed flexibility" (of exchange rates) or of "par value" came to an end.<sup>1</sup> The convertibility of the U.S. dollar was terminated and it began to float freely in the foreign exchange markets. Several other nations such as West Germany and Japan followed suit and also floated their currencies. With this an interim floating arrangement emerged. The U.S. dollar was depreciating against several major currencies and to take advantage of this situation, the rupee peg was shifted from pound sterling to dollar. The rupee-dollar parity was fixed at Rs. 7.50 (the then prevailing rate). The exchange rates of the rupee for pound sterling and other currencies were determined on the basis of cross-rates of dollar vis-a-vis other currencies. But in December 1971, Smithsonian Agreement on realignment of currencies was signed by the Group of Ten Countries.<sup>2</sup> The important results of this agreement were: (i) an increase in the official price of gold from \$ 35.00 to \$ 38.00 an ounce. This in essence meant the devaluation of the dollar by 7.89 per cent and (ii) widening of the band of permissible fluctuation of exchange rates

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1 For detailed discussion on collapse of the Bretton Woods System, see Chapter 1 of the present study.

2 They comprised Belgium, Canada, France, Italy, Japan, Sweden, The Federal Republic of Germany, The Netherlands, The United Kingdom and The United States.



from 1 per cent to 2.25 per cent around the new parities or "central rates". Following this agreement, the dollar-pound sterling parity changed from \$ 2.40 to \$ 2.60571 per pound. With this change, the rupee was delinked from the dollar and relinked to the pound at £ 1 = Rs. 18.9677 against the old rate of Rs. 18.00. It amounted to devaluation of rupee against pound-sterling by 5.38 per cent. Further the rupee-dollar rate was also altered from Rs. 7.50 to Rs. 7.279, which meant revaluation of rupee against dollar by 2.95 per cent.

On June 23, 1972, the U.K. decided to float the pound sterling in view of her deteriorating balance of payments position. The pound sterling slumped from the Smithsonian rate of \$ 2.6057 to \$ 2.4430. Since the Indian rupee was pegged to the pound sterling, the rupee also depreciated against dollar and other currencies by the same extent. On the day when pound sterling was allowed to float, the rupee was revalued to £ 1 = Rs. 18.95, i.e., by 0.093 per cent. Rupee was further revalued on July 4, 1972 by 0.79 per cent by reducing the parity to Rs. 18.80.

However, the adverse balance of payments position of the U.K. continued and the pound sterling persistently lost ground in the exchange markets. Consequently, the rupee also depreciated against major currencies. This can be seen from Table 4.1 which shows changes in exchange rates of the rupee against major currencies during the period from June 1971 to June 1975. It is evident from Table 4.1 that during this

Table 4.1

Exchange Rates of Rupee During June 1971 to June 1975  
(Rs. per unit of foreign currency)

| Period      | Belgian<br>Franc<br>(10) | D-Mark | French<br>Franc | Italian<br>Lira<br>(1000) | Japanese<br>Yen<br>(100) | Pound<br>Sterling | Canadian<br>dollar | U.S.<br>dollar |
|-------------|--------------------------|--------|-----------------|---------------------------|--------------------------|-------------------|--------------------|----------------|
| <u>1971</u> |                          |        |                 |                           |                          |                   |                    |                |
| June        | 1.50                     | 2.13   | 1.35            | 11.90                     | 2.08                     | 18.00             | 7.27               | 7.44           |
| Dec.        | 1.66                     | 2.27   | 1.42            | 12.51                     | 2.36                     | 18.9677           | 7.40               | 7.43           |
| <u>1972</u> |                          |        |                 |                           |                          |                   |                    |                |
| June        | 1.77                     | 2.46   | 1.55            | 13.36                     | 2.58                     | 18.95             | 7.87               | 7.76           |
| Dec.        | 1.82                     | 2.50   | 1.56            | 13.75                     | 2.66                     | 18.80             | 8.05               | 8.01           |
| <u>1973</u> |                          |        |                 |                           |                          |                   |                    |                |
| June        | 2.02                     | 3.00   | 1.77            | 12.32                     | 2.75                     | 18.80             | 7.29               | 7.28           |
| Dec.        | 1.96                     | 2.99   | 1.72            | 13.31                     | 2.89                     | 18.80             | 8.13               | 8.09           |
| <u>1974</u> |                          |        |                 |                           |                          |                   |                    |                |
| June        | 2.69                     | 3.08   | 1.63            | 12.15                     | 2.77                     | 18.80             | 8.09               | 7.87           |
| Dec.        | 2.19                     | 3.28   | 1.78            | 12.26                     | 2.68                     | 18.80             | 8.17               | 8.07           |
| <u>1975</u> |                          |        |                 |                           |                          |                   |                    |                |
| June        | 2.36                     | 3.52   | 2.06            | 13.17                     | 2.81                     | 18.80             | 8.03               | 8.24           |

Depreciation of  
Rs. in June 1975  
compared to June  
1971 (in per-  
centages)

10.75

10.45

4.44

35.10

10.67

52.59

65.26

57.33

SOURCE - Satyendra S. Nayak, "Exchange Rate Policy under a Regime of Floating Rates: A Critique to the Indian Experience", Economic And Political Weekly, Jan.15, 1977, p. 56.

period the rupee depreciated against the Deutch Mark by the highest percentage of 65.26. The depreciation vis-a-vis the Belgian Franc was 57.33 per cent, against the French franc 53 per cent and with respect to Japanese yen by 35 per cent. According to an estimate, the effective depreciation of Indian rupee during the period under reference amounted to 23 per cent.<sup>3</sup>

The persistent depreciation of Indian rupee posed great problems for India and it was realised by the authorities that "due to supply constraints of exportable goods, a further depreciation of the rupee would not help in raising export earnings, but might lead to an accentuation of the inflationary tendencies in the economy via rising import costs, particularly of oil and other essential items."<sup>4</sup> In view of this realisation, a fresh look into India's exchange rate policy was considered imperative and the Government of India decided on 25th September 1975 to delink rupee from the sinking British pound and peg it to a basket of convertible currencies. However, the pound sterling continued to be the intervention currency and it was announced by the Reserve Bank of India that if the external value of the rupee in terms of the new basket of

3 Satyendra S. Nayak, "Exchange Rate Policy", in J.N.Mongia (ed.), India's Economic Policies, Allied Publishers Pvt. Ltd., 1980, p. 544.

4 S.K. Verghese, "Management of Exchange Rate of Rupee Since its Basket link", Economic and Political Weekly, July 14, 1984, p. 1097.

currencies changed by more than 2.25 per cent, a corresponding change would be made in rupee-pound sterling rate. This provision was made with a view to keep the value of rupee stable vis-a-vis other currencies and as can be observed from Table 4.2, the Government of India frequently adjusted the rupee-pound sterling rate during 1975-80 period to achieve the objective. But the variations in the exchange

Table 4.2

Exchange Rates of Rupee with Pound Sterling during  
25th September 1975 to 24th November, 1980.

| Date of Change     | Middle rate of<br>Pound Sterling in<br>terms of<br>rupees | Degree of Appre-<br>ciation & Depre-<br>ciation<br>(in percentages) |
|--------------------|---|---|
| 25 September, 1975 | 18.3084   |   |
| 05 December, 1975  | 18.1284   | + 0.98  |
| 08 March, 1976     | 17.75   | + 2.09  |
| 11 March, 1976     | 17.25   | + 2.82  |
| 03 April, 1976     | 16.90   | + 2.03  |
| 23 April, 1976     | 16.50   | + 2.37  |
| 29 May, 1976       | 16.00   | + 3.03  |
| 21 September, 1976 | 15.40   | + 3.75  |
| 29 September, 1976 | 14.70   | + 4.55  |
| 24 December, 1976  | 15.20   | - 3.40  |
| 02 November, 1977  | 15.75   | - 3.62  |
| 24 May, 1978       | 15.35   | + 2.54  |
| 31 July, 1978      | 15.55   | - 1.30  |
| 16 August, 1978    | 15.75   | - 1.29  |
| 18 October, 1978   | 16.00   | - 1.59  |
| 30 October, 1978   | 16.35   | - 2.19  |
| 18 November, 1978  | 16.15   | + 1.22  |
| 20 December, 1978  | 16.50   | - 2.17  |
| 13 March, 1979     | 16.80   | - 1.82  |
| 09 April, 1979     | 17.15   | - 2.08  |
| 15 May, 1979       | 16.90   | + 1.46  |

|               |      |       |        |
|---------------|------|-------|--------|
| 02 June,      | 1979 | 17.55 | - 3.85 |
| 16 June,      | 1979 | 17.10 | + 2.56 |
| 22 June,      | 1979 | 17.35 | - 1.46 |
| 06 July,      | 1979 | 17.75 | - 2.31 |
| 19 July,      | 1979 | 18.00 | - 1.41 |
| 15 September, | 1979 | 17.75 | + 1.39 |
| 24 October,   | 1979 | 17.50 | + 1.41 |
| 31 October,   | 1979 | 17.25 | + 1.43 |
| 19 November,  | 1979 | 17.55 | - 1.74 |
| 04 December,  | 1979 | 17.80 | - 1.42 |
| 09 January,   | 1980 | 18.00 | - 1.12 |
| 21 January,   | 1980 | 18.15 | - 0.83 |
| 15 February,  | 1980 | 18.25 | - 0.55 |
| 05 March,     | 1980 | 18.15 | + 0.55 |
| 11 March,     | 1980 | 18.05 | + 0.55 |
| 18 March,     | 1980 | 17.85 | + 1.11 |
| 01 April,     | 1980 | 17.70 | + 0.84 |
| 02 April,     | 1980 | 17.60 | + 0.56 |
| 11 April,     | 1980 | 17.75 | - 0.85 |
| 17 April,     | 1980 | 17.90 | - 0.85 |
| 24 April,     | 1980 | 18.05 | - 0.84 |
| 15 May,       | 1980 | 18.15 | - 0.55 |
| 25 May,       | 1980 | 18.25 | - 0.55 |
| 27 May,       | 1980 | 18.35 | - 0.55 |
| 08 July,      | 1980 | 18.45 | - 0.54 |
| 28 July,      | 1980 | 18.55 | - 0.54 |
| 30 July,      | 1980 | 18.45 | + 0.54 |
| 31 July,      | 1980 | 18.40 | + 0.27 |
| 01 August,    | 1980 | 18.35 | + 0.27 |
| 02 August,    | 1980 | 18.45 | - 0.54 |
| 28 August,    | 1980 | 18.55 | - 0.54 |
| 02 September, | 1980 | 18.60 | - 0.27 |
| 05 September, | 1980 | 18.65 | - 0.27 |
| 16 September, | 1980 | 18.55 | + 0.54 |
| 23 September, | 1980 | 18.65 | - 0.54 |
| 29 September, | 1980 | 18.55 | + 0.54 |
| 14 October,   | 1980 | 18.65 | - 0.54 |
| 21 October,   | 1980 | 18.75 | - 0.54 |
| 24 October,   | 1980 | 18.85 | + 0.53 |
| 10 November,  | 1980 | 18.75 | + 0.53 |
| 11 November,  | 1980 | 18.65 | + 0.53 |
| 24 November,  | 1980 | 18.50 | + 0.80 |

Note:           - Means depreciation of rupee.  
                   + Means appreciation of rupee.

Source:       R.B.I., Annual Report, 1976-77, 1978-79 and  
                   1979-80.

rates of the rupee against major currencies continued. This is confirmed by the data presented in Table 4.3. This table shows that the nominal exchange rates of the rupee depreciated by 2.87 per cent against the pound sterling, 16.91 per cent against the D. Mark and 24.96 per cent against the Japanese Yen while it appreciated against the dollar by 14.01 per cent at the end of December, 1980. The rupee, however, depreciated significantly in real terms between 1970 and 1980. According to an I.M.F. study, the real effective exchange rate of the rupee depreciated by 27 per cent during 1973-81.<sup>5</sup> Another study of the World Bank estimates that during the period 1970-79, the real exchange rate of the rupee depreciated by an annual average of over 3 per cent.<sup>6</sup> Similarly, there are other studies that corroborate the conclusion that the rupee underwent significant real depreciation in the 1970s.<sup>7</sup>

However, it is generally believed that a depreciating currency helps in expanding exports and contracting imports, thereby improving the balance of trade position of the country concerned. This is because when the value of the domestic

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5 IMF, World Economic Outlook, 1982, Supplementary Note, 122. Also see IMF, World Economic Outlook, 1983, Supplementary Note 133. Quoted in S.K.Vergese, op. cit., p.1105.

6 Quoted in S.K.Vergheze, "Management of Exchange Rate of Rupee since its Basket link", Economic and Political Weekly, July 21, 1984, p.1151.

7 S.K. Vergheze, op.cit., pp. 1103-05.

Table 4.3

Variation of Rupee Against Selected Currencies  
(Percent Variations with September-end 1975 Rates as Base)

| Date               | U.S.<br>dollar | Deutsche<br>Mark | Japanese<br>Yen | Pound<br>Sterling |
|--------------------|----------------|------------------|-----------------|-------------------|
| 30 September, 1975 | 00             | 00               | 00              | 00                |
| 30 October, 1975   | +1.5           | -2.6             | +1.1            | 0.00              |
| 28 November, 1975  | -1.2           | -2.4             | -1.1            | 0.00              |
| 30 December, 1975  | 0.0            | -1.4             | +0.8            | +0.99             |
| 30 January, 1976   | +0.4           | -2.1             | +0.7            | +0.99             |
| 27 February, 1976  | +0.3           | -3.4             | +0.2            | +0.99             |
| 31 March, 1976     | -0.4           | -5.0             | -1.4            | +6.14             |
| 30 April, 1976     | +0.3           | -4.5             | -               | +10.96            |
| 28 May, 1976       | -4.1           | -6.7             | -5.1            | +14.43            |
| 30 June, 1976      | -0.1           | -3.4             | -1.9            | +14.43            |
| 30 July, 1976      | 0.0            | -4.4             | -3.0            | +14.43            |
| 31 August, 1976    | -0.5           | -5.5             | -5.1            | +14.43            |
| 30 September, 1976 | +2.4           | -6.3             | -2.8            | +24.55            |
| 29 October, 1976   | -2.0           | -11.4            | -4.9            | +24.55            |
| 30 November, 1976  | +0.6           | - 9.1            | -1.7            | +24.55            |
| 30 December, 1976  | +0.3           | -11.2            | -3.2            | +20.45            |
| 31 January, 1977   | +1.2           | - 8.0            | -3.3            | +20.45            |

(Contd.)

|                    |       |       |       |        |
|--------------------|-------|-------|-------|--------|
| 28 February, 1977  | +0.9  | - 9.2 | -5.8  | +20.45 |
| 31 March, 1977     | +1.5  | - 8.9 | -6.9  | +20.45 |
| 28 April, 1977     | +1.5  | -10.2 | -6.9  | +20.45 |
| 31 May, 1977       | +1.4  | -10.3 | -7.1  | +20.45 |
| 30 June, 1977      | +1.5  | -10.8 | -10.2 | +20.45 |
| 29 June, 1977      | +2.5  | -11.9 | - 9.9 | +20.45 |
| 31 August, 1977    | +2.5  | -10.3 | - 9.2 | +20.45 |
| 30 September, 1977 | +3.1  | -10.6 | - 9.6 | +20.45 |
| 28 October, 1977   | +4.9  | -10.8 | -13.6 | +20.45 |
| 30 November, 1977  | +3.4  | -13.5 | -16.1 | +16.25 |
| 30 December, 1977  | +8.4  | -14.1 | -13.9 | +16.25 |
| 31 January, 1978   | +11.1 | -11.9 | -11.4 | +16.25 |
| 28 February, 1978  | +10.2 | -15.7 | -13.1 | +16.25 |
| 31 March, 1978     | + 5.7 | -19.6 | -22.3 | +16.25 |
| 28 April, 1978     | + 4.3 | -19.0 | -23.2 | +16.25 |
| 31 May, 1978       | + 6.4 | -15.9 | -21.4 | +19.28 |
| 29 June, 1978      | + 8.4 | -15.4 | -26.3 | +19.28 |
| 29 July, 1978      | +12.9 | -13.4 | -28.9 | +17.74 |
| 31 August, 1978    | +10.6 | -17.4 | -30.5 | +16.25 |
| 29 September, 1978 | +12.3 | -18.2 | -29.8 | +16.25 |
| 30 October, 1978   | +14.9 | -23.4 | -32.2 | +11.98 |
| 30 November, 1978  | + 8.3 | -21.8 | -29.4 | +13.37 |
| 29 December, 1978  | +10.6 | -24.0 | -28.9 | +10.96 |
| 31 January, 1979   | + 8.2 | -23.9 | -27.7 | +10.96 |

(Contd.)



|                    |        |        |        |        |
|--------------------|--------|--------|--------|--------|
| 28 February, 1979  | +10.0  | -23.5  | -26.5  | +10.96 |
| 26 March, 1979     | + 9.86 | -23.57 | -26.36 | + 8.98 |
| 30 April, 1979     | + 8.40 | -22.88 | -21.72 | + 6.75 |
| 29 May, 1979       | + 9.10 | -21.80 | -22.01 | + 8.33 |
| 29 June, 1979      | +12.39 | -22.43 | -21.09 | + 5.52 |
| 31 July, 1979      | +15.56 | -20.71 | -18.41 | + 1.71 |
| 31 August, 1979    | +12.35 | -23.32 | -19.67 | + 1.71 |
| 28 September, 1979 | +11.55 | -27.10 | -19.02 | + 3.14 |
| 31 October, 1979   | + 7.78 | -27.07 | -16.57 | + 6.13 |
| 30 November, 1979  | +11.77 | -27.12 | - 9.47 | + 4.32 |
| 31 December, 1979  | +12.80 | -27.23 | -12.06 | + 2.86 |
| 31 January, 1980   | +12.04 | -27.13 | -12.81 | + 0.87 |
| 29 February, 1980  | +12.53 | -25.80 | - 9.10 | + 0.32 |
| 31 March, 1980     | + 9.36 | -21.03 | -11.16 | + 2.57 |
| 29 April, 1980     | +13.76 | -23.34 | -10.68 | + 1.43 |
| 30 May, 1980       | +14.93 | -23.47 | -16.61 | - 0.23 |
| 30 June, 1980      | +14.97 | -24.03 | -18.60 | - 0.23 |
| 31 July, 1980      | +14.78 | -23.67 | -15.39 | - 0.50 |
| 29 August, 1980    | +15.78 | -22.54 | -17.92 | - 1.30 |
| 30 September, 1980 | +15.77 | -21.41 | -20.05 | - 1.30 |
| 30 October, 1980   | +16.41 | -17.82 | -20.58 | - 2.87 |
| 28 November, 1980  | +14.88 | -17.23 | -19.38 | - 1.03 |
| 31 December, 1980  | +14.01 | -16.91 | -24.96 | - 2.87 |

Note: - Means depreciation of rupee. + Means appreciation of rupee.

Variations calculated from September-end 1975 base rates with the Trade Weighted Exchange Rate month-end rates.

SOURCE: Exchange rates computed based on prevailing re-Sterling rates and London Closing Cross rates.

Reproduced from: S.K.Verghese, "Management of Exchange Rate of Rupee since its Basket Link", "Economic & Political Weekly, July 14, 1984, p.1102.

currency in terms of foreign currency goes down, the exporters from the devaluing country find that it is more profitable to export, earn in foreign currency and convert it into larger amount of domestic currency. Besides, foreigners find it attractive to buy more goods because foreign currency now commands more of devalued currency, and prices remaining unchanged or not rising to the full value of devaluation, they can get more goods than before. On the import side, domestic purchasers will have to pay more for imports in terms of domestic currency and this is expected to reduce the demand for imported goods. In the light of this general observation, we examine in the following sections the effects of the depreciation of the Indian rupee on India's exports and imports during 1960-80 period.

#### 4.3 The 1966 devaluation and India's Foreign Trade

We have noted in the early part of this chapter, that India devalued its currency by 36.5 per cent on June 6, 1966. As a result the rupee-dollar rate was changed from 4.76 to Rs. 7.50 per dollar while the rupee-pound sterling parity got altered from Rs. 13.00 to Rs. 21.00 per pound sterling. This devaluation was necessitated by many factors which included stagnation in exports, declining foreign exchange reserves, huge premia on import licences, increasing premium on foreign exchange in the black market and rising price-level in the country.

India's exports stagnated in the 1950s while there was none and could not be any let up on import front.<sup>8</sup> Early 1960s brought some buoyancy in India's exports when measures were adopted to give a fillip to it. These measures were adopted in the form of cash compensatory support, supply of key inputs at international prices, supply of export credit at concessional rates, import entitlement, duty drawbacks, freight concessions in movement of merchandise and strengthening of institutional infrastructure.<sup>9</sup> But even then exports failed to keep pace with the rise in imports and the trade gap widened. This created an alarming situation. Further the failure of exports to match imports during this period led to a persistent depletion in India's foreign exchange reserves. In 1950-51, India's foreign exchange reserves amounted to Rs.1,029 crores and were capable, of financing 19 months' imports.<sup>10</sup> This figure slumped to the critical level of Rs. 298 crores in the year 1965-66 with its capacity to finance only 2.5 months' imports. Moreover, in the years 1961-66, the Indian economy witnessed an annual rise of 8.5 per cent in prices.<sup>11</sup> Such

8 For details see Chapter 3, Section 3.2.

9 S.K. Modwel and M.L. Verma, op.cit., p.7.

10 Satyendra S. Nayak, "Exchange Rate Policy", op.cit., Table 4, p. 525.

11 A.N. Agrawal, Indian Economy - Problems of Development and Planning, Vikas Publishing House Pvt. Ltd., 1981, p. 647.

a high rise in the price level made it almost difficult for India even to maintain the existing level of exports. Under these circumstances, the decision was taken to devalue rupee and salvage the economy out of the deficit trap.

The effect of devaluation on trade balance was favourable. This may be observed from Table 4.4.

In 1964-65, the trade deficit amounted to Rs. 839.05 crores. The next year, the deficit increased to Rs. 949.55 crores when exports recorded a dip of 1.31 per cent over the previous year and imports moved up by 4.41 per cent in the same period. In the devaluation year 1966-67 both exports and imports suffered a decline. The decline over the preceding year was 8.05 per cent in respect of exports and 7.05 per cent in imports. Consequently, the trade deficit got narrowed from Rs. 949.55 crores in 1965-66 to Rs. 895.27 crores in 1966-67. Thereafter exports recorded a continuous rise, although the year-to-year rate of growth varied, while imports declined continuously until the year 1970-71. When it recorded a rise of 3.29 per cent over the previous year. But even this rise in imports in the year 1970-71 was well behind the corresponding rise in exports in the same year at 8.62 per cent. Therefore, the balance of trade position improved persistently since 1966-67 -- the deficit got narrowed from Rs. 895.27 crores in 1966-67 to Rs. 99.04 crores in 1970-71. As a proportion of GNP, the



deficit in balance of trade declined from 3.55 per cent in 1966-67 to 0.27 per cent in 1970-71 (Table 4.4). Thus the devaluation of the rupee produced favourable effect on India's balance of trade by boosting exports and restricting imports. In fact, it could have helped in improving the situation further, but certain changes introduced in India's trade policy at the time of devaluation exercised adverse effect on India's exports. For example, it was assumed that following devaluation, all export products would become competitive in the international markets even without export incentives and therefore, "all export promotion measures including cash compensatory support (CCS), import entitlement, duty drawback, supply of key raw material at international prices, etc., were dispersed with."<sup>12</sup> But devaluation failed to fully make up the withdrawal of incentives and trade and industry found it difficult to compete in international markets. Exports also suffered adversely due to drought conditions within the country in two successive years -- 1966-67 and 1967-68. Added to this, following industrial recession in the country during 1965-67, production of a number of manufactured and non-traditional products sluggished, and adequate surpluses for export could not be generated.

On the import front, the policy of liberalisation of imports

12 S.K. Modwel and M.L. Verma, op.cit., pp. 8-9.

coupled with heavy import of foodstuffs owing to poor harvest in the country restricted a further fall in imports.

The favourable impact of devaluation on India's trade balance is further confirmed when we have a look at the quantum indices of imports and exports shown in Table 4.5. This table also provides information on India's terms of trade during the period 1964-65 - 1970-71.

The quantum index for exports declined in the devaluation year 1966-67 to 84 from 87 in the previous year. But thereafter it had a rising trend. In respect of imports the quantum index in 1966-67 came down to 99 from 102 in the previous year and jumped to the figure of 110 in the year 1967-68. Thereafter, it declined and remained below the base level. Similarly, a close scrutiny of India's terms of trade also reveals a favourable impact of devaluation.

The impact of devaluation of rupee can also be examined with the help of India's major exports and imports. Table 4.6 depicts India's exports of principal commodities during the period from 1965-66 to 1970-71. It may be discerned from Table 4.6 that devaluation had favourable effects on exports of handicrafts, engineering goods, leather and leather manufactures, iron ore, fish and fish preparations, chemicals and allied products and cashew kernels as the shares in India's total exports in the post-devaluation period went up considerably. On the other hand, tea, jute

Table 4.5

India's Net Barter, Gross Barter and Income Terms of Trade :  
1964-65 - 1970-71

(Base = 1968-69 = 100)

| Year    | Unit value<br>Index |        | Quantum<br>index |        | Net barter<br>terms<br>of trade |        | Gross barter<br>terms<br>of trade |        | Income<br>terms<br>of trade |        |
|---------|---------------------|--------|------------------|--------|---------------------------------|--------|-----------------------------------|--------|-----------------------------|--------|
|         | Export              | Import | Export           | Import | Export                          | Import | Export                            | Import | Export                      | Import |
| 1964-65 | 64                  | 70     | 93               | 97     | 91                              |        | 104                               |        | 85                          |        |
| 1965-66 | 68                  | 74     | 87               | 102    | 92                              |        | 117                               |        | 80                          |        |
| 1966-67 | 102                 | 106    | 84               | 99     | 96                              |        | 118                               |        | 81                          |        |
| 1967-68 | 102                 | 96     | 86               | 110    | 106                             |        | 128                               |        | 91                          |        |
| 1968-69 | 100                 | 100    | 100              | 100    | 100                             |        | 100                               |        | 100                         |        |
| 1969-70 | 104                 | 100    | 100              | 85     | 104                             |        | 85                                |        | 105                         |        |
| 1970-71 | 106                 | 100    | 106              | 87     | 106                             |        | 81                                |        | 112                         |        |

Notes: (1) Net Barter Terms of Trade = Ratio of overall export unit value to overall import unit value index.

(2) Gross Barter Terms of Trade = Ratio of overall import quantum index to overall export quantum index.

(3) Income Terms of Trade = Product of Net Barter Terms of Trade and Quantum Index Number of exports.

SOURCE: Derived from Table 3.4.



Table 4.6

India's Exports of Principal Commodities :  
1965-66 - 1970-71

|                                     | (Percentage distribution) |         |         |         |         |
|-------------------------------------|---------------------------|---------|---------|---------|---------|
|                                     | 1965-66                   | 1967-68 | 1968-69 | 1969-70 | 1970-71 |
| 1. Handicrafts                      | 3.45                      | 4.09    | 5.07    | 5.19    | 4.55    |
| 2. Engineering goods                | 2.18                      | 2.96    | 5.06    | 6.43    | 8.18    |
| 3. Leather and leather manufactures | 3.53                      | 4.46    | 5.34    | 5.77    | 4.70    |
| 4. Tea                              | 14.25                     | 15.03   | 11.51   | 8.81    | 9.66    |
| 5. Iron ore                         | 4.89                      | 6.24    | 6.50    | 6.70    | 7.64    |
| 6. Fish and fish preparations       | 0.84                      | 1.54    | 1.67    | 2.23    | 2.04    |
| 7. Chemical and allied products     | 1.13                      | 0.99    | 1.29    | 1.57    | 1.91    |
| 8. Jute manufactures                | 22.69                     | 19.53   | 16.03   | 14.62   | 12.40   |
| 9. Cotton textiles                  | 7.86                      | 6.63    | 6.47    | 6.13    | 6.35    |
| 10. Coffee                          | 1.61                      | 1.52    | 1.32    | 1.39    | 1.64    |
| 11. Sugar                           | 1.39                      | 1.37    | 0.77    | 0.63    | 1.91    |
| 12. Oil cakes                       | 4.30                      | 3.79    | 3.64    | 2.93    | 3.61    |
| 13. Cashew kernels                  | 3.40                      | 3.59    | 4.48    | 4.06    | 3.39    |
| 14. Beverages and tobacco           | 2.69                      | 2.97    | 2.49    | 2.36    | 2.12    |
| 15. Iron and steel                  | 1.54                      | 4.57    | 5.80    | 6.14    | 4.38    |
| 16. Mica                            | 1.40                      | 1.25    | 0.99    | 1.08    | 1.01    |
| 17. Veg. oils                       | 0.51                      | 0.33    | 0.86    | 0.35    | 0.46    |
| 18. Others                          | 22.34                     | 19.14   | 20.71   | 23.62   | 24.05   |
| 19. TOTAL                           | 100.00                    | 100.00  | 100.00  | 100.00  | 100.00  |

Source: Derived from Table 3.7.

manufactures, oil cakes, coffee, and vegetable oils, showed a declining trend.

Looking at the imports of principal commodities into India in the post-devaluation period (Table 4.7), we find that petroleum oil and lubricants accounted for 4.86 per cent of total imports in the pre-devaluation year 1965-66. But its share diminished to 3.73 per cent in the immediate post-devaluation year 1967-68. Thereafter, it had a more or less rising trend. Imports of machinery other than electric, recorded a fluctuating trend but its contribution to India's total imports in the post-devaluation year did not exceed the level reached in the pre-devaluation year 1965-66. Imports of electric machinery, apparatus and appliances declined in 1967-68 and thereafter stagnated around a mean value of 4.25 per cent of total imports. This also fell short of the level reached in the year 1965-66. The relative share of iron and steel declined from 6.95 per cent in 1965-66 to 5.30 per cent in 1967-68 and further to 4.64 per cent in 1968-69. But thereafter, it had a rising trend reaching the level of 9.60 per cent in 1970-71. The proportion of food and live animals increased from 25.14 per cent in 1965-66 to 28.85 per cent in 1967-68 but after that it registered a persistent decline. In contrast, the share of raw cotton consistently rose in the post-devaluation period. Among the remaining items, the share of fertilisers manufactured went up from 2.77 per cent in 1965-66 to 6.92 per cent in 1967-68

Table 4.7

Imports of Principal Commodities into  
India : 1965-66 - 1970-71  
(Percentage Distribution)

|   | 1965-66 | 1967-68 | 1968-69 | 1969-70 | 1970-71 |
|---|---------|---------|---------|---------|---------|
| 1. Petroleum oil and lubricants               | 4.86    | 3.73    | 7.17    | 8.72    | 8.32    |
| 2. Machinery other than electric              | 23.70   | 16.76   | 19.68   | 17.72   | 15.72   |
| 3. Electric machinery, apparatus & appliances | 6.23    | 4.27    | 4.40    | 4.07    | 4.24    |
| 4. Iron and Steel                             | 6.95    | 5.30    | 4.64    | 5.15    | 9.00    |
| 5. Animal and veg. oils and fats              | 0.97    | 1.71    | 1.04    | 1.87    | 2.36    |
| 6. Transport equipment                        | 5.01    | 4.03    | 3.57    | 3.24    | 4.07    |
| 7. Food and live animals                      | 25.14   | 28.85   | 21.68   | 20.27   | 16.63   |
| 8. Fertilisers manufactured                   | 2.77    | 6.92    | 7.49    | 4.87    | 3.74    |
| 9. Non-ferrous metals                         | 4.86    | 4.42    | 4.78    | 4.69    | 7.28    |
| 10. Chemical elements and compounds           | 2.55    | 3.85    | 4.46    | 4.26    | 4.16    |
| 11. Metal manufactures                        | 1.30    | 0.71    | 0.73    | 0.46    | 0.57    |
| 12. Raw cotton                                | 3.28    | 4.16    | 4.85    | 5.23    | 6.05    |
| 13. Others                                    | 12.40   | 15.29   | 15.52   | 19.45   | 17.85   |
| 14. TOTAL                                     | 100.00  | 100.00  | 100.00  | 100.00  | 100.00  |

Sources: Derived from Table 3.5.

and further to 7.49 per cent in 1968-69, but thereafter recorded a decline. Imports of non-ferrous metals, chemical elements and compounds exhibited a rising trend.

The impact of devaluation of rupee on India's direction of trade can be studied with the help of Table 4.8 and 4.9. Table 4.8 shows that in 1960-61 the share of U.K. in India's total exports was the highest at 26.1 per cent. This came down to 18.1 per cent in 1965-66 and further to 17.5 per cent in the devaluation year 1966-67. But this trend got reversed in the year 1967-68 when U.K.'s share in India's total exports shot up to 19.1 per cent. This, however, proved to be a temporary phase and in the following three years, the share declined persistently. The U.S. occupied the second position in 1960-61 with its share in India's exports being 15.5 per cent. In 1965-66, this share increased to 18.3 per cent and further to 19.0 per cent in the following year. The share declined to 17.3 per cent in 1967-68 and remained stationary in the year 1968-69. Thereafter, it recorded a declining trend. India's exports to Japan increased substantially. Other capitalist countries and developing countries purchased Indian goods on a very small scale and no radical change in the share took place. However, India's exports to U.S.S.R. expanded at a very rapid pace. But this can be attributed to the special trade relations which India has with the Socialist countries.

Table 4.8

Direction of India's Exports : 1960-61 - 1970-71  
(Percentage Distribution)

| S.No. | Country                     | 1960-61 | 1965-66 | 1966-67 | 1967-68 | 1968-69 | 1969-70 | 1970-71 |
|-------|-----------------------------|---------|---------|---------|---------|---------|---------|---------|
| 1.    | U.K.                        | 26.1    | 18.1    | 17.5    | 19.1    | 14.8    | 11.7    | 11.1    |
| 2.    | U.S.A.                      | 15.5    | 18.3    | 19.0    | 17.3    | 17.3    | 16.9    | 13.5    |
| 3.    | Canada                      | 2.7     | 2.6     | 2.7     | 2.5     | 2.2     | 1.9     | 1.8     |
| 4.    | West Germany                | 3.0     | 2.3     | 2.2     | 1.9     | 1.9     | 2.1     | 2.1     |
| 5.    | Italy                       | 1.4     | 1.1     | 1.3     | 1.5     | 1.3     | 0.9     | 0.9     |
| 6.    | France                      | 1.3     | 1.4     | 1.6     | 1.3     | 1.5     | 1.5     | 1.2     |
| 7.    | U.S.S.R.                    | 4.4     | 11.5    | 10.7    | 10.2    | 10.9    | 12.5    | 13.6    |
| 8.    | Egypt                       | 2.0     | 3.4     | 2.2     | 1.8     | 1.6     | 2.4     | 3.7     |
| 9.    | Australia                   | 3.4     | 2.2     | 2.3     | 2.3     | 1.9     | 1.7     | 1.6     |
| 10.   | Japan                       | 5.3     | 7.1     | 9.3     | 11.3    | 11.7    | 12.7    | 13.3    |
| 11.   | Burma                       | 1.0     | 0.4     | 0.3     | 0.3     | 0.7     | 1.5     | 0.9     |
| 12.   | TOTAL<br>(Including others) | 100.0   | 100.0   | 100.0   | 100.0   | 100.0   | 100.0   | 100.0   |

Source : Director General of Commercial Intelligence and Statistics. Taken from  
Eastern Economist, Annual Number 1974, p.1392.

Table 4.9 indicates the direction of Indian Imports. It can be seen from this table that during the period 1960-61 to 1970-71, India obtained maximum imports from the U.S.A. This was largely because of the fact that India imported bulk of its requirements of capital goods, intermediate products and even foodgrains (under P.L. 480 agreement) from that country. The share of U.K. in India's imports was 19.0 per cent in 1960-61. But this share continuously declined in the post-devaluation period. Imports from Canada had a rising trend. The share of the remaining countries fluctuated during the period under review.

#### 4.4 India's Foreign Trade : 1971-72 - 1980-81

We have mentioned in Section 4.2 that the rupee underwent significant real depreciation in the 1970s. It is against this background that we analyse the impact of depreciating rupee on India's exports, imports and trade balance during the period 1971-72 to 1980-81.

The trends in India's exports, imports and the balance of trade are outlined in Table 4.10. It shows that in value terms, India's exports increased consistently from Rs. 1,608.22 crores in 1971-72 to Rs. 6,710.70 crores in 1980-81 or by 317.27 per cent. The year-to-year rate of growth, however, varied widely ranging between 4.55 and 31.92 per cent. The growth in export was particularly

Table 4.9

Direction of India's Imports : 1960-61 - 1970-71  
(Percentage Distribution)

| S.No. | Country                  | 1960-61 | 1965-66 | 1966-67 | 1967-68 | 1968-69 | 1969-70 | 1970-71 |
|-------|--------------------------|---------|---------|---------|---------|---------|---------|---------|
| 1.    | U.K.                     | 19.0    | 10.7    | 8.0     | 8.1     | 6.7     | 6.5     | 7.8     |
| 2.    | U.S.A.                   | 28.7    | 38.0    | 37.0    | 38.7    | 30.0    | 29.5    | 27.7    |
| 3.    | Canada                   | 1.8     | 2.2     | 4.4     | 4.9     | 5.2     | 4.7     | 7.2     |
| 4.    | West Germany             | 10.7    | 9.7     | 7.8     | 7.2     | 6.3     | 5.3     | 6.6     |
| 5.    | Italy                    | 2.3     | 1.4     | 2.0     | 1.7     | 2.6     | 2.5     | 1.8     |
| 6.    | France                   | 1.9     | 1.3     | 1.7     | 1.7     | 1.9     | 1.5     | 1.3     |
| 7.    | U.S.S.R.                 | 1.4     | 5.9     | 5.5     | 5.5     | 10.0    | 10.8    | 6.5     |
| 8.    | Egypt                    | 1.4     | 1.4     | 1.0     | 1.3     | 2.2     | 1.4     | 2.4     |
| 9.    | Australia                | 1.6     | 1.7     | 2.8     | 3.2     | 1.3     | 2.0     | 2.2     |
| 10.   | Japan                    | 5.3     | 5.6     | 5.2     | 5.4     | 6.0     | 4.3     | 5.1     |
| 11.   | TOTAL (Including others) | 100.0   | 100.0   | 100.0   | 100.0   | 100.0   | 100.0   | 100.0   |

Source: Same as for Table 4.8, p. 1383.

Table 4.10

Trends in India's Foreign Trade : 1971-72 to 1980-81

| Year    | (Value in crores of post-dev.rupees) |                        |            |                        |               |            |                |
|---------|--------------------------------------|------------------------|------------|------------------------|---------------|------------|----------------|
|         | EXPORTS                              |                        | IMPORTS    |                        | Trade balance |            | As % of G.N.P. |
|         | Rs. crores                           | % change over prev.yr. | Rs. crores | % change over prev.yr. | Rs. crores    | Rs. crores |                |
| 1971-72 | 1,608.22                             | 4.76                   | 1,824.54   | 11.65                  | - 216.32      | 4.13       | 4.68           |
| 1972-73 | 1,970.83                             | 21.93                  | 1,867.44   | 2.35                   | 103.39        | 4.59       | 4.35           |
| 1973-74 | 2,523.40                             | 28.69                  | 2,955.37   | 58.26                  | - 431.97      | 4.72       | 5.53           |
| 1974-75 | 3,328.83                             | 31.92                  | 4,518.78   | 52.90                  | -1189.95      | 5.29       | 7.18           |
| 1975-76 | 4,036.26                             | 21.25                  | 5,264.78   | 16.51                  | -1228.52      | 6.10       | 7.96           |
| 1976-77 | 5,142.25                             | 27.40                  | 5,073.79   | -3.63                  | 68.46         | 7.21       | 7.12           |
| 1977-78 | 5,407.87                             | 5.17                   | 6,020.23   | 18.65                  | - 612.36      | 6.72       | 7.48           |
| 1978-79 | 5,726.26                             | 5.89                   | 6,814.30   | 13.19                  | -1088.04      | 6.60       | 7.85           |
| 1979-80 | 6,418.43                             | 12.09                  | 9,142.55   | 34.17                  | -2724.15      | 6.75       | 9.62           |
| 1980-81 | 6,710.70                             | 4.55                   | 12,549.15  | 37.26                  | -5838.45      | 5.86       | 10.95          |

Sources: Derived from Tables 3.2 and 3.3.



impressive during the period 1972-73 to 1976-77 when on an average annual exports increased by 26.2 per cent. This was largely the period when along with the depreciating pound, the rupee depreciated significantly against major currencies (Table 4.1). The rate of growth slowed down thereafter. This trend in India's exports during the 1970s is also confirmed by the share of exports in the GNP. The share rose consistently from 4.13 per cent in 1971-72 to 7.21 per cent in 1976-77, and thereafter recorded a fluctuating trend around a mean value of 6.5 per cent.

On the other hand, imports during this period increased from Rs. 1,824.54 crores in 1971-72 to Rs. 12,549.15 crores in 1980-81 or by 587.80 per cent. This increase in imports also did not come about in a continuous manner. In 1971-72, imports recorded a rise of a little less than 12 per cent and the previous year but sluggished to merely 2.35 per cent in the following year. Thereafter, these imports picked up and attained an yearly rate of growth of 58.26 per cent and 52.90 per cent in the years 1973-74 and 1974-75 respectively. Imports sluggished once again in 1975-76 and even declined in 1976-77 (3.63 per cent). This was a healthy development but the momentum was soon lost in 1977-78 when imports recorded a rise of 18.65 per cent over the previous year. The rate of growth slowed down to 13.19 per cent in 1978-79, but increased remarkably in the year 1979-80 and 1980-81. The share of imports in the GNP of India generally moved in

line with the trends in value of imports.

The result of this intermittent upsurge in imports was that the balance of trade position fluctuated widely during the period under review. The overall trade deficit in 1971-72 was Rs. 216.32 crores. This turned into a positive trade balance of Rs. 103.39 crores in 1972-73. This, however, did not continue for long and the deficit appeared again in 1973-74 which got accentuated in the following two years. The year 1976-77 witnessed a favourable trade balance of Rs. 68.46 crores for the second time after Independence. Thereafter, the deficit in balance of trade rose continuously reaching an all time record of Rs. 5,838.45 crores in 1980-81.

Variations in India's foreign trade in the 1970s in terms of quantum can be studied with the help of Table 4.11.

From table 4.11 it is evident that India's export performance was impressive even in real terms. The quantum index number of exports showed an increase from 107 in 1971-72 to 238 in 1980-81, i.e., by 122.43 per cent. During the same period, the quantum index number of imports increased from 105 to 191, i.e., by 82 per cent. The period, however, showed a greater rise in the unit value index of imports than that of exports implying that the phenomenal rise in imports was largely due to the worldwide inflation and the rise in

oil price as observed in the preceding chapter. As a consequence, the net barter terms of trade declined from 116 in 1971-72 to 58 in 1980-81 with considerable fluctuations in between the period. However, the low import volume as compared to export quantum caused deterioration in gross terms of trade while the continuous rising trend in export quantum led to the uptrend in income terms of trade (table 4.11).

Looking at the disaggregate exports and imports, we find widely differing performance of different commodities. Table 4.12 reveals that the relative importance of handicrafts, engineering goods, fish and fish preparations, and chemicals, and allied products continuously improved in India's total exports in the 1970s. Share of jute manufactures, tea and cotton textiles showed continuous diminution.

The relative importance of different commodities in India's total imports during the 1970s is shown in Table 4.13. It can be seen from this table that petroleum oil and lubricants, chemicals, iron and steel, non-ferrous metals constituted a big lump of the total imports into India. Among capital goods, imports of electric machinery, apparatus and appliances, non-electric machinery and transport equipment rose very substantially. Imports of food increased sharply till 1976-77 but thereafter recorded a declining trend.

From the above analysis, it can be established that the

Table 4.11

India's Net Barter, Gross Barter and Income Terms of Trade :  
1964-65 - 1970-71

| Year    | UNIT VALUE INDEX |        | QUANTUM INDEX |        | Net barter terms of trade |          | Gross barter terms of trade |          | (Base = 1068-69 = 100)<br>Income terms of trade |          |
|---------|------------------|--------|---------------|--------|---------------------------|----------|-----------------------------|----------|---|----------|
|         | Export           | Import | Export        | Import | of trade                  | of trade | of trade                    | of trade | of trade  | of trade |
| 1971-72 | 108              | 93     | 107           | 105    | 116                       | 98       | 124                         | 124      |   |          |
| 1972-73 | 120              | 97     | 120           | 99     | 124                       | 82       | 148                         | 148      |   |          |
| 1973-74 | 146              | 138    | 125           | 114    | 106                       | 91       | 132                         | 132      |   |          |
| 1974-75 | 183              | 239    | 133           | 100    | 77                        | 75       | 102                         | 102      |   |          |
| 1975-76 | 197              | 280    | 147           | 99     | 70                        | 67       | 103                         | 103      |   |          |
| 1976-77 | 210              | 278    | 174           | 97     | 76                        | 56       | 131                         | 131      |   |          |
| 1977-78 | 236              | 249    | 168           | 130    | 95                        | 77       | 159                         | 159      |   |          |
| 1978-79 | 234              | 260    | 180           | 140    | 90                        | 78       | 162                         | 162      |   |          |
| 1979-80 | 236              | 360    | 199           | 135    | 66                        | 68       | 130                         | 130      |   |          |
| 1980-81 | 207              | 354    | 238           | 191    | 58                        | 80       | 138                         | 138      |   |          |

Notes: (1) Net Barter Terms of Trade = Ratio of overall export unit value to overall import unit value index.

(2) Gross Barter Terms of Trade = Ratio of overall import quantum index to overall export quantum index.

(3) Income Terms of Trade = Product of Net Barter Terms of Trade and Quantum Index Number of exports.

SOURCE: Derived from Table 3.4

Table 4.12

India's Exports of Principal Commodities : 1971-72 - 1980-81  
(Percentage Distribution)

| S.No. | Commodity                         | 1971-72 | 1972-73 | 1973-74 | 1974-75 | 1975-76 | 1976-77 | 1977-78 | 1978-79 | 1979-80 | 1980-81 |
|-------|-----------------------------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| 1.    | Handicrafts                       | 5.08    | 6.07    | 6.88    | 5.61    | 5.55    | 8.86    | 13.90   | 16.71   | 12.97   | 13.94   |
| 2.    | Engg. Goods                       | 7.79    | 7.16    | 7.99    | 10.74   | 10.23   | 11.01   | 11.42   | 12.24   | 11.52   | 10.83   |
| 3.    | Leather & Leather<br>Manufactures | 5.60    | 8.65    | 6.60    | 4.02    | 4.99    | 5.14    | 4.59    | 5.72    | 7.57    | 5.02    |
| 4.    | Tea                               | 9.72    | 7.47    | 5.79    | 6.85    | 5.87    | 5.70    | 10.53   | 5.95    | 5.73    | 6.34    |
| 5.    | Iron Ore                          | 6.51    | 5.57    | 5.27    | 4.82    | 5.30    | 4.64    | 4.45    | 4.07    | 4.44    | 4.52    |
| 6.    | Fish and Fish<br>Preparations     | 2.57    | 2.73    | 3.54    | 1.99    | 3.15    | 3.51    | 3.22    | 3.95    | 3.95    | 3.17    |
| 7.    | Chemical and<br>Allied Products   | 1.89    | 1.79    | 1.99    | 2.79    | 2.11    | 2.15    | 2.16    | 2.59    | 3.08    | 3.36    |
| 8.    | Jute Manufactures                 | 16.37   | 12.54   | 8.95    | 8.83    | 6.22    | 3.91    | 4.53    | 2.91    | 5.24    | 4.92    |
| 9.    | Cotton Textiles                   | 6.22    | 6.43    | 9.51    | 6.45    | 5.35    | 6.44    | 4.16    | 3.92    | 4.48    | 4.12    |
| 10.   | Coffee                            | 1.37    | 1.67    | 1.82    | 1.54    | 1.65    | 2.45    | 3.59    | 2.51    | 2.54    | 3.19    |
| 11.   | Sugar                             | 1.93    | 0.70    | 1.72    | 10.21   | 11.70   | 2.88    | 0.36    | 2.29    | 2.00    | 0.61    |
| 12.   | Oil cakes                         | 2.50    | 3.79    | 6.76    | 2.87    | 2.39    | 4.56    | 2.46    | 1.92    | 1.99    | 1.86    |
| 13.   | Cashew kernel                     | 3.81    | 3.49    | 2.95    | 3.55    | 2.38    | 2.06    | 2.76    | 1.40    | 1.84    | 2.09    |
| 14.   | Beverages & Tobacco               | 2.80    | 3.25    | 2.81    | 2.47    | 2.44    | 1.99    | 2.17    | 2.03    | 1.77    | 2.10    |
| 15.   | Iron and Steel                    | 1.59    | 1.17    | 1.04    | 0.63    | 1.69    | 5.65    | 3.43    | 3.88    | 0.51    | 1.04    |
| 16.   | Mica                              | 0.96    | 0.84    | 0.50    | 0.55    | 0.36    | 0.34    | 0.32    | 0.33    | 0.32    | 0.26    |
| 17.   | Vegetable Oils                    | 0.47    | 1.29    | 1.25    | 1.01    | 0.98    | 1.06    | 0.48    | 0.33    | 0.77    | 0.33    |
| 18.   | Others                            | 21.85   | 25.37   | 24.63   | 25.06   | 27.63   | 27.64   | 25.46   | 27.26   | 29.28   | 32.30   |
| 19.   | TOTAL                             | 100.00  | 100.00  | 100.00  | 100.00  | 100.00  | 100.00  | 100.00  | 100.00  | 100.00  | 100.00  |

SOURCE: Derived from Table 3.7.

Table 4.13

Import of Principal Commodities into India : 1971-72 - 1980-81  
(Percentage Distribution)

| S.No. | Commodity                                    | 1971-72 | 1972-73 | 1973-74 | 1974-75 | 1975-76 | 1976-77 | 1977-78 | 1978-79 | 1979-80 | 1980-81 |
|-------|--|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| 1.    | Petroleum oil & Lubricants                   | 10.66   | 10.94   | 18.97   | 25.60   | 23.86   | 27.86   | 25.85   | 44.37   | 35.73   | 41.94   |
| 2.    | Machinery other than electric                | 14.85   | 15.95   | 14.44   | 8.94    | 10.95   | 14.42   | 11.54   | 11.29   | 8.83    | 8.89    |
| 3.    | Electric Machinery, Apparatus and Appliances | 5.76    | 7.18    | 4.40    | 3.56    | 3.81    | 2.86    | 3.16    | 2.84    | 2.60    | 1.86    |
| 4.    | Iron and Steel                               | 13.02   | 12.09   | 8.44    | 9.38    | 5.92    | 4.33    | 4.32    | 6.79    | 9.50    | 6.79    |
| 5.    | Animal & Vegetable oils & fats               | 2.55    | 1.33    | 2.20    | 0.77    | 0.32    | 2.33    | 12.26   | 8.11    | 4.98    | 5.65    |
| 6.    | Transport equipment                          | 5.18    | 5.36    | 3.21    | 2.90    | 2.98    | 3.36    | 3.74    | 4.36    | 3.70    | 3.76    |
| 7.    | Food & Live animals                          | 10.79   | 8.55    | 18.51   | 18.92   | 27.14   | 18.84   | 3.86    | 3.60    | 3.19    | 3.10    |
| 8.    | Fertilisers manufactured                     | 4.45    | 5.15    | 5.51    | 9.65    | 8.92    | 3.90    | 4.29    | 5.44    | 4.06    | 5.20    |
| 9.    | Non-ferrous metals                           | 5.57    | 5.80    | 4.70    | 3.91    | 1.91    | 3.10    | 3.19    | 3.60    | 3.87    | 3.80    |
| 10.   | Chemical element and compound                | 3.94    | 4.89    | 3.71    | 3.96    | 3.42    | 2.72    | 3.27    | 3.39    | 3.54    | 2.85    |
| 11.   | Metal manufactures                           | 0.66    | 1.01    | 0.74    | 0.62    | 0.63    | 0.63    | 0.63    | 0.68    | 0.83    | 0.71    |
| 12.   | Raw cotton                                   | 6.21    | 4.87    | 1.76    | 0.59    | 0.54    | 2.55    | 3.30    | 0.39    | -       | -       |
| 13.   | Others                                       | 16.34   | 27.80   | 13.42   | 11.19   | 9.59    | 13.12   | 20.59   | 5.15    | 19.18   | 15.44   |
| 14.   | TOTAL  | 100.00  | 100.00  | 100.00  | 100.00  | 100.00  | 100.00  | 100.00  | 100.00  | 100.00  | 100.00  |

SOURCE: Derived from Table 3.5.

steady depreciation in the exchange value of the rupee helped largely in boosting India's exports during 1970s while its role in restraining imports was limited. Consequently balance of trade continued to remain largely unfavourable. It must, however, be noted that the encouraging trends in India's exports in this period cannot be attributed solely to the depreciating rupee. A sizeable part of the increase of exports during the first half of the decade of the seventies was also due to the growth in grant-financed exports to Bangladesh, the commodity price boom in the world markets, the phenomenal increase in the value of sugar and silver exports, the availability of new markets in oil-rich countries due to the oil price boom and the relative price stability in India.<sup>13</sup>

Similarly, the increase in the value of imports can be attributed to a rise in prices of imported goods such as food, fertilisers and petroleum, the necessity to import essential items to remove domestic shortages such as food-grains, edible oils, etc., and the policy of import liberalisation to make available inputs for industrial products for domestic use and exports.

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13 For a detailed study of the impact of some of these factors on India's export performance, see Deepak Nayyar, "India's Export Performance in the 1970s," Economic and Political Weekly, May 15, 1976, pp. 732-43, and S.K. Verghese, "Export Assistance Policy and Export Performance of India in the Seventies," Economic and Political Weekly, Annual Number, Feb., 1978, pp. 245-76.

#### 4.5 Concluding Remarks

To conclude, the exchange rate policy during the period 1960-61 to 1980-81 has helped India in overcoming the crisis in the balance of trade. The devaluation of rupee in 1966 improved India's trade balance substantially by 1968-69. The Indian exports started moving up while imports registered a continuous decline.

Since August 1971, the international monetary system moved from the system of fixed par value to the flexible or floating exchange rate system. In such a situation, India fixed the rupee's exchange rate with reference to British bound sterling. But as the pound sterling was persistently losing ground in the exchange markets, the rupee depreciated against major currencies. This provided a big boost to Indian exports which shot up from Rs. 1,608.22 crores in 1971-72 to Rs. 5,142.25 crores in 1976-77. The impact of the depreciation of the rupee exchange rate on value of imports, however, was the mixed one. In 1973-74, the total import bill rose by 58.26 per cent over the previous year. In the following year also the increase was of the extent of 53 per cent. In contrast, imports in the year 1972-73 increased merely by 2.35 per cent and in 1976-77 recorded a negative rate of growth. Consequently, India's balance of trade position fluctuated widely in this period. The deficits in balance of trade touched new heights in the years 1974-75 and 1975-76



while the years 1972-73 and 1976-77 experienced export surpluses.

India decided to change its foreign exchange rate policy in the second half of the 1970s and pegged rupee to a basket of currencies of leading trade partners on 25th September, 1975. This was done with a view to maintain stability in the external value of rupee. But rupee continued to depreciate against major currencies of the world. However, exports during 1977-78 - 1980-81 rose at a very slow pace while imports picked up significantly. The trade balance persistently deteriorated in this period. Exports suffered a set back in this period due to both domestic constraints and the unfavourable turn in the world market. R.L. Varshney has well listed these constraints as follows:<sup>14</sup>

- (a) Deliberate policy of restricting or banning the export of mass consumption items.
- (b) Decline in the overall import demand in the developed countries because of low level of activity.
- (c) Protective measures adopted in the developed countries, which affected India's exports of textiles, garments, shoes, iron and steel, iron ore and leather.

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14. R.L. Varshney, "India's exports : Much needs to be done". World Focus, Vol. 5, No. 5, May 1984, pp. 35-36.

- (d) Rising domestic demand for some exportable items like steel and cement.
- (e) Mounting inflationary pressures in the country.
- (f) Problems on the domestic front like power shortage, transport bottlenecks, labour strikes, and congestion in ports.

As against these, imports in this period rose mainly due to the sharp rise in the prices of essential imports, especially of POL.

## Chapter 5

### SUMMARY AND CONCLUSIONS

Exchange rate variation is regarded as an effective means to rectify the disequilibrium in the balance of trade of a country and it is widely held that exports would respond positively to a depreciating currency while imports would get discouraged. This would, in turn, put the balance of trade in equilibrium. On the other hand, exports of a country with an over-valued currency, decline and imports are stimulated. It is against this background that we have made an attempt in the foregoing pages to examine the impact of management of exchange rate of rupee on India's exports, imports and trade balance during 1960-61 to 1980-81.

In India, the role of foreign trade in economic development is widely recognised. But India's balance of trade has all along been negative from the beginning of the Five Year Plans with the exception of the years 1972-73 and 1976-77. This deficit in balance of trade coupled with growing debt burden has often created serious balance of payments difficulties for the country and to meet the situation,

policies bearing on imports, exports and exchange have been tried.

India devalued the rupee in June 1966 by 36.5 per cent in terms of gold. In terms of the U.S. dollar and the British Pound Sterling the degree of devaluation was 57.5 per cent. Massive trade deficit, increasing prices and rising unemployment were some of the important causes of devaluation of rupee. Its effect on India's trade balance turned out to be favourable.

In 1965-66, i.e., on the eve of devaluation, the value of exports was Rs. 1,268.88 crores. After devaluation exports could reach a bare level of Rs. 1,166.77 crores in 1966-67. In other words, exports in the devaluation year recorded a decline of 8.05 per cent over the level reached in the immediate pre-devaluation year. This decline in exports was mainly due to the withdrawal of incentives. It was believed that following devaluation of the rupee exports will become cheaper and can compete in the international market even without incentives. Therefore, at the time of devaluation, all export incentives were withdrawn. But as Indian exports mainly consisted of traditional products such as tea, jute and textiles having inelastic demand in overseas markets, the competitive edge imparted to them through devaluation failed to step up foreign exchange earnings. The favourable effect of devaluation on exports appeared during

1967-68 when there was a mild recovery in them. Thereafter, exports rose consistently in value terms. Annual rates of growth were 2.74 per cent in 1967-68, 13.46 per cent in 1968-69, 3.92 per cent in 1969-70 and 8.62 per cent in 1970-71. It need, however, to be noted that all this rise in value of exports cannot be attributed only to devaluation. Several other factors such as revival of export promotion measures, and recession in the country during 1965-67 too gave a boost to exports in the post devaluation period.

In terms of quantity, the trend in exports was similar to that of value of exports. The quantum index (1968-69 = 100) for exports declined in the devaluation year 1966-67 to 84 from 87 in the previous year, but thereafter it had a rising trend reaching to a level of 106 in 1970-71.

Productwise, devaluation had favourable effects on exports of handicrafts, engineering goods, leather and leather manufactures, iron ore, fish and fish preparations, chemicals and allied products and cashew kernels. The combined share in India's total exports increased from 19.42 per cent in 1965-66 to 32.41 per cent in 1970-71. In contrast, India's traditional exports like tea, jute and cotton textiles declined in importance in the post-devaluation period.

Devaluation also reduced the demand for imports. The value of imports, which, on the eve of devaluation, was of the

order of Rs. 2,218.43 crores, came down to Rs. 2,062.04 crores in the devaluation year and persistently declined in the following years untill 1970-71 when it recorded a marginal rise. However, devaluation was only one of the several factors responsible for reducing demand for imports. Other factors included fall in import of foodgrains following good crops in 1968-69 and the industrial recession in the domestic economy which led to the fall in import of raw materials.

The combined effect of expanding exports and diminishing imports on India's balance of trade was favourable. In 1965-66, the trade deficit was Rs. 949.55 crores. This declined to Rs. 895.27 crores in the devaluation year and continuously declined in the following years. In 1970-71, it amounted to a small figure of Rs. 99.04 crores. As a proportion of GNP, the deficit in balance of trade declined from 3.55 per cent in 1966-67 to 0.27 per cent in 1970-71.

The Bretton Woods System collapsed in August 1971 and with this the international monetary system moved from the system of fixed par value to the flexible or floating exchange rate system. The convertibility of the U.S. dollar was terminated and it began to float freely in the foreign exchange markets. The U.S. dollar depreciated against several major currencies. At this juncture India reviewed its exchange rate policy and decided to peg rupee to the depreciating dollar which

ment of currencies in December 1971, the rupee was delinked from the dollar and relinked to the pound sterling. The policy of peg to the pound sterling continued until 25th September 1975 when rupee was pegged to a basket of currencies. The rupee exchange rate depreciated considerably during its peg to the pound sterling, following the later depreciation against major currencies. The depreciation of Indian rupee during June 1971 to June 1975 amounted to 11 per cent against the U.S. dollar, 65 per cent vis-a-vis D. Mark, 53 per cent against French Franc and 35 per cent with respect to Japanese Yen. Such a depreciation in exchange rate of rupee was considered harmful particularly in view of the supply constraints of exportable goods and therefore India decided to change its foreign exchange rate policy once again by linking it to a basket of currencies.

The persistent depreciation of the rupee in the 1970s gave a boost to India's exports. It increased continuously from Rs. 1,608.22 crores in 1971-72 to Rs. 6,710.70 crores in 1980-81 or by 317.27 per cent. Annual rates of growth during this period ranged between 4.55 and 31.92 per cent. The growth in exports was particularly impressive during 1972-73 to 1976-77 when they had grown at an average rate of 26.20 per cent per annum. During 1977-78 to 1980-81 exports rose at an average rate of 6.90 per cent per annum only.

India's export performance improved in the 1970s even in

real terms when the quantum index of exports (1968-69 = 100) increased from 107 in 1971-72 to 238 in 1980-81.

The growth in exports was also accompanied by a structural change leading to a decline in the share of traditional items and increase in the share of non-traditional items in India's total exports. The non-traditional items particularly handicrafts, engineering goods and chemicals became important sources of foreign exchange earnings.

Thus depreciation in the exchange rate of rupee gave a fillip to the expansion of exports. Besides other factors also proved helpful. These included grant-financed exports to Bangladesh, the commodity price boom in the world markets, the phenomenal increase in the value of sugar and silver exports, the availability of new markets in OPEC etc.

On import front, during 1973-74 to 1975-76, the growth rates were phenomenal. It came to 58.3 per cent in 1972-73, 52.9 per cent in 1974-75 and 16.5 per cent in 1975-76. In 1976-77, there was a small decline in imports but this did not last long and again the value of imports rose in 1977-78. The rise continued in the following years. During the entire period, 1971-72 to 1980-81, the value of imports increased by 367.80 per cent as against a rise of 317.30 per cent registered by exports.

The quantum index of imports rose from 105 in 1971-72 to 191 in 1980-81 whereas during the same period unit value index



of imports rose from 93 to 354. This shows that the phenomenal rise in imports in this period was largely due to the world-wide inflation. The sharp rise in the unit value of imports also caused a deterioration in net barter terms of trade of India. It declined from 116 in 1971-72 to 58 in 1980-81.

Much of the expansion in imports in this period was caused by heavy expenditure on petroleum products. The share in India's total imports increased from 10.7 per cent in 1970-71 to 42 per cent in 1980-81. The share of food and live animals also increased markedly during 1970-71 to 1976-77. Thereafter they fell steeply.

The main reasons for this rise in the value and volume of imports included the various hikes in prices of petrol and petroleum products by the OPEC; the necessity to import essential items, like machinery and components, raw materials and even foodstuffs; and the policy of liberalisation of imports.

Following the differing performance of exports and imports, India's balance of trade position fluctuated widely in the 1970s. India experienced favourable balance of trade twice, once in 1972-73 and for the second time in 1976-77. In remaining years, the balance of trade remained in deficits.

The conclusions emerging from this study are as follows:

(1) The formal devaluation of rupee in June 1966 and the persistent depreciation in its exchange rate in the 1970s had favourable impact on India's exports. This was particularly so during 1968-69 to 1976-77. However, the impact of other factors such as various export promotion measures, commodity price boom in the world markets, demand boom in West Asia, grant-financed exports to Bangladesh and ad hoc increase in exports of silver and sugar in promoting exports from India during this period cannot be minimised.

(2) The growth in value and volume of exports achieved in this period was accompanied by notable structural shifts in the composition of exports. The non-traditional items, particularly handicrafts, engineering goods, chemicals, etc., became important sources of foreign exchange.

(3) Impact of depreciation in the exchange rate of rupee on India's imports was found to be favourable during the second half of the 1960s. But in the 1970s, the response of imports was not significant. This can be attributed to mounting expenditure on oil and other essential imports following the rise in overseas prices of them, and the policy of liberalisation of imports. However, it cannot be denied that but for this devaluation, India's import bills would have been much larger than what they have been.

(4) The varying response of imports and exports to the

depreciating rupee produced mixed reaction on India's balance of trade. It improved significantly in the second half of the 1960s, registered surpluses in the years 1972-73 and 1976-77 and deteriorated in the rest of the years of the 1970s. The deterioration was sharp in the last couple of years of the 1970s.

In the light of the above mentioned conclusions, it may be suggested that the task of balancing of India's foreign trade is a complex phenomenon and calls for a multi-pronged action. India's imports mainly comprise essential items and these cannot be restricted merely by the price effects of the depreciating rupee. Likewise, while an appropriate exchange rate policy for the rupee can be expected to improve the competitiveness and profitability of Indian exports, a not so congenial international trading environment, shrinking overseas demand for traditional exports, protectionist policies of the advanced nations, heavy pressure on exportable surpluses on account of growing domestic demand and supply constraints make expansion of exports more difficult. Under such circumstances, efforts should be made to achieve as much import saving and substitution as possible through various other measures will be governed by production of qualitative products at international competitive prices. Besides, production of the right kind of goods will have to be matched with the timely delivery. These responsibilities must be shared by business and Government alike.

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